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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST NOVEMBER 8, 1984

Fall 1984 Regional Economic Survey

Sharp differences characterize economic conditions and the outlook for the region. Farmers appear to be living in two different worlds, depending on debt loads and management practices. Bankers forecast a gloomy future for the most highly leveraged farm operators, but are very upbeat concerning the long-term prospects for a large number of solid farm operators. However, a pessimistic mood has gripped most farm communities as the adjustment to a new set of economic rules continues.

Another sharp contrast in the region is the Twin Cities' remarkable rebound from the last recession, surpassing the strong national performance. The upward momentum is expected to carry over into 1985. Meanwhile, many northeastern Minnesota communities anticipate a continued slow recovery at best.

This picture emerges from the results of Norwest's 17th semi-annual survey of the region's bankers. The survey, conducted in early October, drew responses from more than 650 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Economic Conditions

Agricultural Communities

Tough Times Continue. Sagging grain and livestock prices, declining land values and continued high real interest rates point to another challenging year for farmers and ag-related businesses. Farm margins are considered very thin, with little opportunity to reduce debt loads. However, operators with good equity positions are managing to post a profit.

Half of the agricultural bankers classify current economic conditions as fair, 36 percent rate local conditions poor and another 6 percent very poor. Economic conditions appeared the weakest in eastern Montana, with two-thirds of the bankers calling current conditions poor and 13 percent giving a very poor rating. Portions of Montana have suffered serious drought for several years.

Eastern North Dakota bankers were the most upbeat. More than 40 percent of these bankers considered current economic conditions good and another 38 percent fair. Many of these bankers referred to the 1984 harvest as the best crop in years.

In the absence of some unforeseen price-boosting development, most bankers anticipate little, if any, improvement in local economic conditions during the next year. One-fourth of the agricultural bankers are braced for more difficult economic times. However, the outlook for farm commodity prices is highly uncertain. Good weather next year could push corn and soybean inventories to the true surplus range in 1985-86, while a poor crop would all but guarantee a return to tight supplies and stronger prices. Livestock profits may improve during the next year, while bankers expect dairy operations to be fairly stable.

Depressed farm earnings are also hurting many ag-related businesses and other merchants in small rural towns, as farmers slash outlays to the bare minimum.

A number of bankers cited lowering the federal government deficit as the key ingredient to a healthier agricultural economy. They felt this action would lower interest rates and also stimulate grain exports as the dollar would moderate from current lofty levels. Proposals to defer debt payments were considered of limited value, since such plans failed to address the underlying cause of the farm problem: Farmers need more income, not more credit.

Sharp Dichotomy Within Agriculture. There is a sharp dichotomy between farm operations that are highly leveraged and those with low debt loads. Farmers with considerable equity remain healthy, while the heavily indebted struggle to survive. Although these highly leveraged operations are in the minority, their plight has prompted many financially strong producers to adopt a very cautious attitude.

Failure Rate Edging Up. Although still low, the number of farmers going out of business is on the rise. Bankers estimated that 2 percent of their customers quit farming during the past 12 months. Their estimates ranged from a low of one-half of 1 percent for one-fourth of the agricultural bankers to a high of at least 3 percent for another one-fourth of the bankers. These figures are up from previous surveys.

Depressed farm earnings will continue to take their toll. Bankers indicate that another 3 percent of their customers may discontinue operations during the next year.

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Fall 1984 Regional Economic Survey

Conducted by:
Norwest Corporation, Economics Department
Norwest Banks, Financial Institutions Group

Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* ***loan-to-deposit*** *ratio?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	61.2%	52.0%	62.0%	70.0%
Minnesota	64.0	55.0	65.1	73.0
North Dakota	55.8	47.0	58.0	65.0
South Dakota	56.9	49.5	57.0	65.3
Montana	62.1	49.5	64.1	72.5
Wisconsin	67.2	62.5	67.5	72.0
Iowa	57.4	47.0	58.8	65.0
Nebraska	65.0	56.0	66.0	75.0
Twin Cities Banks	65.4	59.3	65.0	72.0
N. Minn-Wisc.	61.7	52.0	63.6	74.3

2. ***Loan-to-deposit ratio*** *higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	19%	44%	37%
Minnesota	24	46	29
North Dakota	9	40	51
South Dakota	18	47	35
Montana	20	34	46
Wisconsin	18	36	45
Iowa	14	44	41
Nebraska	27	43	30
Twin Cities Banks	10	51	39
N. Minn.-Wisc.	11	56	33

3. ***Typical interest rate*** *charged for operating loans?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	14.7%	14.5%	14.5%	15.0%
Minnesota	14.8	14.5	14.5	15.0
North Dakota	14.5	14.1	14.5	14.8
South Dakota	14.8	14.5	14.8	15.0
Montana	14.8	14.5	14.8	15.5
Wisconsin	14.3	13.9	14.4	15.0
Iowa	14.7	14.5	14.8	15.0
Nebraska	14.6	14.3	14.5	14.8
Twin Cities Banks	14.7	14.4	14.8	15.0
N. Minn-Wisc.	14.8	14.3	15.0	15.0

4. *Percentage change in* ***loan volume*** *during past 12 months?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	5.7%	0.0%	5.0%	10.0%
Minnesota	7.0	0.0	6.0	10.0
North Dakota	4.6	0.0	2.8	10.0
South Dakota	1.3	0.0	0.0	5.0
Montana	6.4	0.0	6.0	10.0
Wisconsin	3.2	0.0	0.0	6.3
Iowa	6.6	0.0	4.0	12.0
Nebraska	5.9	0.0	5.0	10.0
Twin Cities Banks	14.0	6.3	14.0	20.0
N. Minn-Wisc.	6.8	0.0	5.0	11.8

5. *Are customers* ***repaying loans*** *at a faster or slower rate?*

	Faster	Same	Slower
All Ag Banks	6%	56%	38%
Minnesota	3	54	43
North Dakota	19	67	14
South Dakota	11	60	29
Montana	0	66	34
Wisconsin	5	59	36
Iowa	4	47	49
Nebraska	3	53	45
Twin Cities Banks	12	82	6
N. Minn.-Wisc.	14	64	22

6. *Did your bank* ***sell participations*** *to PCAs in past 3 months?*

	Yes	No
All Ag Banks	3%	97%
Minnesota	5	95
North Dakota	4	96
South Dakota	0	100
Montana	0	100
Wisconsin	0	100
Iowa	1	99
Nebraska	1	99

7a. *Change expected in* ***agricultural loan volume*** *during* ***next 12 months****?*

	Higher	Same	Lower
All Ag Banks	31%	58%	11%
Minnesota	30	58	12
North Dakota	33	64	2
South Dakota	29	62	9
Montana	37	54	9
Wisconsin	18	64	18
Iowa	36	52	12
Nebraska	28	54	19

7b. *Change expected in* ***commercial and industrial loan volume*** *in next 6 months?*

	Higher	Same	Lower
Twin Cities Banks	43%	45%	12%
N. Minn.-Wisc.	17	64	19

7c. *Change expected in* ***total loan volume****?*

	Higher	Same	Lower
All Ag Banks	33%	57%	10%
Minnesota	35	56	9
North Dakota	31	57	12
South Dakota	28	65	7
Montana	32	50	18
Wisconsin	27	64	9
Iowa	39	53	8
Nebraska	27	62	10
Twin Cities Banks	42	52	6
N. Minn.-Wisc.	22	56	22

8. Anticipated trend in **loan-to-deposit ratio** during **next 12 months**.

	Higher	Same	Lower
All Ag Banks	32%	49%	19%
Minnesota	34	49	17
North Dakota	35	52	13
South Dakota	31	44	25
Montana	41	44	15
Wisconsin	36	50	14
Iowa	30	55	15
Nebraska	25	43	32
Twin Cities Banks	41	51	8
N. Minn.-Wisc.	28	56	17

9. Percentage increase in **bank deposits** during past 12 months?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.7%	0.0%	5.0%	9.0%
Minnesota	5.1	0.0	5.0	10.0
North Dakota	4.5	0.0	5.0	8.1
South Dakota	3.4	0.0	5.0	6.0
Montana	7.2	0.0	5.0	12.0
Wisconsin	6.7	1.8	5.5	10.0
Iowa	3.3	0.0	3.0	7.0
Nebraska	4.9	0.0	5.0	9.0
Twin Cities Banks	10.7	6.3	10.0	15.8
N. Minn-Wisc.	8.6	5.0	9.6	12.0

10. **Anticipated deposit growth** during next 12 months?

	Stronger	Average	Weaker
All Ag Banks	14%	67%	19%
Minnesota	13	67	20
North Dakota	15	69	15
South Dakota	11	72	17
Montana	9	65	26
Wisconsin	27	59	14
Iowa	16	66	18
Nebraska	14	63	23
Twin Cities Banks	24	59	16
N. Minn.-Wisc.	3	75	22

Business Conditions

11. Is **farm/ranch income** higher or lower than a year ago?

	Higher	Same	Lower
All Ag Banks	15%	33%	52%
Minnesota	10	32	58
North Dakota	36	38	26
South Dakota	20	36	44
Montana	3	31	66
Wisconsin	0	41	59
Iowa	19	20	61
Nebraska	6	44	50

12. Change in **farm income** during **next 12 months**?

	Higher	Same	Lower
All Ag Banks	11%	53%	36%
Minnesota	5	50	44
North Dakota	20	53	27
South Dakota	11	58	31
Montana	26	51	23
Wisconsin	23	45	32
Iowa	11	49	40
Nebraska	6	63	31

13a. Percentage change in **cropland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-13.7%	-20.0%	-11.0%	- 7.1%
Minnesota	-14.6	-20.0	-14.5	-10.0
North Dakota	- 8.7	-14.3	-10.0	0.0
South Dakota	-12.7	-15.0	-10.0	- 9.0
Montana	- 7.8	-15.0	- 5.0	0.0
Wisconsin	-10.9	-20.0	-10.0	- 3.8
Iowa	-17.8	-25.0	-20.0	-10.0
Nebraska	-15.1	-20.0	-13.0	-10.0

13b. Percentage change in **pastureland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-14.6%	-20.0%	-15.0%	- 5.1%
Minnesota	-13.6	-20.0	-10.0	0.0
North Dakota	-10.3	-15.0	-10.0	0.0
South Dakota	-14.8	-20.0	-15.0	- 8.8
Montana	- 8.8	-15.0	-10.0	0.0
Wisconsin	- 9.8	-20.0	- 7.8	0.0
Iowa	-19.3	-25.0	-20.0	-10.0
Nebraska	-19.6	-26.3	-20.0	-10.0

14. Anticipated trend in **land prices** during **next 12 months**?

	Increase	Stable	Decrease
All Ag Banks	1%	42%	57%
Minnesota	1	44	55
North Dakota	1	61	38
South Dakota	0	29	71
Montana	0	34	66
Wisconsin	0	50	50
Iowa	2	36	62
Nebraska	0	37	63

15. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
All Ag Banks	2%	15%	83%
Minnesota	1	16	83
North Dakota	6	19	76
South Dakota	4	26	70
Montana	0	9	91
Wisconsin	0	10	90
Iowa	0	15	85
Nebraska	0	6	94
Twin Cities Banks	47	47	6
N. Minn.-Wisc.	17	44	39

16. Change expected in **capital outlays** during **next 12 months**?

	Higher	Same	Lower
All Ag Banks	3%	35%	62%
Minnesota	3	34	62
North Dakota	7	47	47
South Dakota	4	36	60
Montana	0	26	74
Wisconsin	5	45	50
Iowa	3	28	69
Nebraska	0	33	68
Twin Cities Banks	37	53	10
N. Minn.-Wisc.	17	33	50

Survey
(continued)

are expected to keep mining and taconite shipments under wraps.

Bankers in other northern Minnesota communities characterize current economic conditions as mostly fair. Business and consumer spending remain below pre-recession levels. Most bankers anticipate only limited growth, at best, during the next six months. Lower mortgage rates would give a welcome boost to the logging and wood-products industries, but bankers did not give very good odds for this happening.

Northern Wisconsin bankers indicate that local business conditions are fair to good. Both auto and general-retail sales are stronger than a year ago. Housing starts have improved slightly, but capital expenditures remain subdued. Most of these Wisconsin bankers expect little change in overall economic conditions during the next six months.

Credit Conditions

Agricultural Banks

Loan Demand Up Moderately. Loan demand is up from a year ago, reflecting increased farm operating costs associated with the rebound in crop acreage this year as well as cutbacks in loans by some other lenders, such as the Farm Credit System. However, loan growth was restrained by weak captial spending by farmers.

Total loan volume at country banks was up an average of 5.7 percent from a year ago, but considerable variation existed. Twenty-five percent of the banks reported no increase in loan demand, while another 25 percent had increases of 10 percent or more. Within the region, loan demand was considerably weaker than average in eastern South Dakota, central North Dakota and western Wisconsin. Most banks in these locations reported little change in loan volume, and a fair number experienced declines.

Loan demand outdistanced deposit growth, pushing loan-to-deposit ratios higher. At 61.2 percent, the average loan-to-deposit ratio at agricultural banks was up nearly 3 percentage points from a year ago and at the highest level in four years. One-fourth of the banks had ratios of 52 percent or less, while another one-fourth had ratios of 70 percent or more. Although 37 percent of the bankers still viewed their ratio as lower than desired, this is a more favorable appraisal than reported in recent years.

Agricultural bankers anticipate only moderate increases in loan volume during the next 12 months. Operating loans will edge up more slowly, since 1985 crop acreage will remain near this year's level. Farmers are also likely to monitor fertilizer and chemical applications closely. Moreover, capital outlays will be kept at a bare minimum. Thus, loan-to-deposit ratios may show less change over the next 12 months.

Deposits at agricultural banks are up 4.7 percent from a year ago, a somewhat smaller increase than observed in the last couple of surveys. Bankers anticipate similar deposit growth during the next 12 months. One-fourth of the bankers reported no growth in deposits, while another one-fourth experienced deposit growth of 9 percent or more.

Financial stress in agriculture is reflected in sluggish loan-repayment rates. The number of bankers noting year-to-year declines in repayments exceeded the number noting an increase.

Interest rates on farm operating loans averaged 14.7 percent in October, up about one-half of 1 percent from last April. Rates had hovered around 14 percent for the previous 18 months.

Twin Cities

Strong Loan Demand. The rapid economic rebound is reflected in robust loan demand at Twin Cities banks. Total loans outstanding increased an average of 14 percent during the past 12 months. This extends the strong growth reported last April, and is in sharp contrast with the weak loan demand observed one year ago. One-fourth of the banks reported increases of 6 percent or less in the past six months, while another one-fourth experienced growth of 20 percent or more. Loan-repayment rates remained steady at last spring's improved pace.

Deposits were up a healthy 10 percent from a year ago, but fell shy of the 16 percent spurt reported last April. Deposits were up 6 percent or less at one-fourth of the banks, while they grew 16 percent or more at another one-fourth of the banks.

The average loan-to-deposit ratio has inched up nearly 1 point since April to 65.4 percent — the highest ratio in two years. One-fourth of the banks had a ratio of 59 percent or less, while another one-fourth had a ratio of 72 percent or more. Thirty-nine percent of the bankers viewed their ratios as lower than desired, down from two-thirds a year ago.

Twin Cities bankers look for continued strong loan demand during the next six months. Loan growth is expected to outdistance deposit growth, continuing to push up loan-to-deposit ratios.

Northern Minnesota/Wisconsin

Credit Weakness Persists. Weak loan demand, moderate deposit growth and sluggish repayment rates characterize current credit conditions. Loan volume is up an average of 6.8 percent from a year ago. Despite this weak overall pattern, one-fourth of the banks in this region reported increases of 12 percent or more.

Deposit growth averaged 8.6 percent during the past 12 months, up from last April's figure of 6.2 percent. Once again, considerable variation existed among individual banks.

The average loan-to-deposit ratio rebounded two percentage points during the past six months to 61.7 percent. Yet, one-third of the bankers viewed their ratio as lower than desired. Twenty-five percent of the banks had a ratio of 52 percent or less, while another 25 percent had a ratio of 74 percent or more.

Interest rates charged for operating loans averaged 14.8 percent in early October, up from last April. Bankers anticipate continued sluggish loan demand, the result of a lackluster economy.

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17. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	58%	38%	4%
N. Minn.-Wisc.	44	42	14

18. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	80%	20%	0%
N. Minn.-Wisc.	69	22	8

19. Change expected in **consumer spending** during **next 6 months**?

	Stronger	Same	Weaker
Twin Cities Banks	43%	49%	8%
N. Minn.-Wisc.	31	54	14

20. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	27%	53%	20%
N. Minn.-Wisc.	22	44	33

21. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	1%	8%	49%	37%	6%
Minnesota	0	11	52	33	4
North Dakota	2	18	53	26	1
South Dakota	0	5	38	49	7
Montana	0	3	34	54	9
Wisconsin	0	14	64	18	5
Iowa	0	3	53	38	6
Nebraska	0	1	46	40	13
Twin Cities Banks	10	73	16	0	0
N. Minn.-Wisc.	0	17	58	25	0

22. Anticipated trend in **economic conditions** during **next six months**?

	Better	Same	Worse
All Ag Banks	6%	68%	25%
Minnesota	7	65	28
North Dakota	13	77	10
South Dakota	0	71	29
Montana	6	66	29
Wisconsin	23	68	9
Iowa	4	63	33
Nebraska	3	71	26
Twin Cities Banks	27	69	4
N. Minn.-Wisc.	6	75	19

23a. Financial condition of **highly leveraged** farm customers compared with a year ago?

	Much Better	Slightly Better	About Same	Slightly Worse	Much Worse
All Ag Banks	0%	6%	19%	52%	23%
Minnesota	0	4	19	52	25
North Dakota	0	14	31	47	8
South Dakota	0	8	30	47	15
Montana	0	0	17	51	31
Wisconsin	0	14	9	55	23
Iowa	0	4	9	49	38
Nebraska	0	3	14	61	23

23b. Financial condition of **top 20 percent of farm customers** (by gross sales) compared with a year ago?

	Much Better	Slightly Better	About Same	Slightly Worse	Much Worse
All Ag Banks	2%	34%	39%	22%	3%
Minnesota	1	32	38	23	6
North Dakota	7	45	38	8	1
South Dakota	4	42	32	21	2
Montana	0	11	37	51	0
Wisconsin	0	41	27	32	0
Iowa	1	38	35	24	2
Nebraska	0	24	56	20	0

24. Percentage of farm customers that went **out of business** during the **past 12 months**?

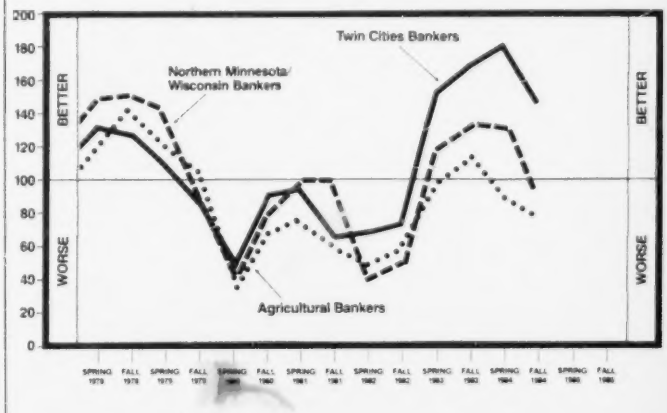
	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	2.2%	1.5%	1.7%	3.0%
Minnesota	2.3	0.5	2.0	4.0
North Dakota	1.4	0.0	1.0	2.0
South Dakota	1.7	1.0	1.0	2.0
Montana	1.6	0.0	1.0	2.0
Wisconsin	2.9	1.0	3.0	5.0
Iowa	2.5	1.0	2.0	3.0
Nebraska	2.7	1.0	2.0	4.8

25. Percentage of farm customers that are likely to **discontinue operations** during the next **12 months**?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	3.6%	1.5%	3.0%	5.0%
Minnesota	3.8	2.0	3.0	5.0
North Dakota	2.3	1.0	2.0	3.8
South Dakota	3.1	1.4	2.3	5.0
Montana	3.4	1.0	2.0	5.0
Wisconsin	3.4	2.0	4.0	5.0
Iowa	4.2	2.0	3.0	5.0
Nebraska	4.5	2.0	4.0	5.0

UPPER MIDWEST CONFIDENCE INDEX

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Bankers' Views 1985 Outlook

Iowa - *"Many marginal farmers will have trouble continuing, but we have lots of good, solid operators who will not only survive but will do well in the future."*

"At this time we see very little light at the end of the tunnel."

"Unless federal deficit/interest rates get straightened out, there is no way banks can restructure debt to make these operations cash flow."

Minnesota - *"We have a good crop but with present prices little chance for farmers to improve their debt position."*

"1985 is going to be a very trying year."

"Land will continue to go down in value, particularly the marginal type of land. Real good farm land has perhaps bottomed out."

"Dairy producers are staying even and have been somewhat encouraged by the PIK results."

Montana - *"With poor agricultural prices and lumber prices, it looks somewhat glum."*

"At present market prices, most farmers are on a break-even basis. If they have a large debt load, they are probably going in the hole."

". . . Suffered through a severe drought this year."

Nebraska - *"Current government proposals have done very little to address the real farm problem. Extension of debt payments is definitely not the answer."*

"We have customers capable of purchasing land at current prices, but are not willing to because of the uncertainty of the times."

"Operators with less than 30 percent debt load are prospering; those with more debt continue to deteriorate."

North Dakota - *"Expect conditions to remain favorable in the Red River Valley."*

"Our farmers have just finished harvesting the best grain crop ever in this part of the state."

"Without a reduction in interest rates, the highly leveraged will go under in 1985 as refinancing is not possible."

South Dakota - *"(Outlook) poor for the highly leveraged operator and just fair for the good operator."*

"A lot of our borrowers are getting very pessimistic."

"It will take 2 to 3 years of agricultural gains, in real terms, to boost rural areas. I do not see this happening in 1985."

Wisconsin - *"The milk program has done some good. But when the program (expires) in April 85, production is going to boom."*

"With the trend toward lower dairy prices, profits will decrease and farm land values will go down."

"Continued troubled ag economy and its ripple effect darken the horizon."

Twin Cities - *"Income growth from steady employment and area growth from new homes and businesses provide a good outlook for us."*

"About the same as '84 which was a good year."

". . . From all appearances the economy should continue to grow at a moderate to above average pace."

Northern Minnesota/Wisconsin - *"No improvement in sight."*

"Economic outlook will change slightly for the worse."

"(Outlook) better than average."

"Will be stable with limited growth unless rates decrease."

Survey

(continued)

Land Values Still Declining. According to the region's bankers, cropland and pastureland prices are down an average of 14 percent from a year ago, but considerable variation was reported. One-fourth of the bankers reported declines of 7 percent or less. Within the region, Montana and North Dakota bankers reported the smallest fluctuations in land values, while Iowa reported greater-than-average declines.

Land prices are expected to remain under pressure. Nearly 60 percent of the bankers forecast declining land values during the next 12 months; the remainder anticipate little change in land prices. Marginal land is expected to decline the most, while prices of prime farm land may be close to the bottom.

Twin Cities

Recovery Surpasses Nation. The Twin Cities economy is on a strong upward path. Most Twin Cities bankers rated local economic conditions good to very good. Auto sales and general retail sales are up significantly from a year ago. Capital expenditures by businesses are also rising, while housing starts posted modest gains over last year.

By the end of the third quarter, Twin Cities nonfarm employment was 4.6 percent above the peak reached before the 1981-82 recession. This stellar performance overshadows the national rebound. During September, U.S. nonfarm employment was 3.5 percent above its pre-recession peak.

The Twin Cities recovery has been widespread, with the largest employment gains occurring in retail trade, business services, construction and the manufacture of office equipment and other high-tech products. Twin Cities manufacturing employment is just shy of the previous peak, while the nation's manufacturing industries are 7 percent short of the peak reached before the last recession.

Perhaps more surprising, areas outside the Twin Cities have regained over 90 percent of the jobs lost during the last recession. This outstate performance, combined with the strong Twin Cities growth, has pushed Minnesota's nonfarm employment 2.8 percent above the previous peak. This is the strongest performance among the states covered by this survey.

Most Twin Cities bankers were optimistic about the economic prospects for the next six months. They forecast continued strong consumer and business spending. But some bankers feared that interest rates would creep up during 1985, stalling the economic expansion.

Northern Minnesota/Wisconsin

Weak Recovery. Despite some improvement, overall economic activity remains weak. However, significant variation is evident within this part of the region.

Iron Range bankers view current economic conditions as fair to poor. Auto sales and general-retail sales are higher than a year ago, but housing starts and business investment are down. No real improvement is anticipated during the next six months. About 40 percent of the bankers think 1985 will be somewhat weaker than 1984. Increased steel imports

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST

MAY 15, 1985

Spring 1985 Regional Economic Survey

Our 18th semiannual survey of the region's bankers sheds additional light on the scope and magnitude of farm problems and their impact on lenders. Among other topics, this survey tracks changes in land prices, farm liquidations, loan problems, use of the debt adjustment program and bankers' views on pending farm legislation.

The survey also suggests that, so far, farm problems have had little impact on the Twin Cities economy. Meanwhile, some parts of Northern Minnesota and Wisconsin are braced for continued economic turmoil. Conducted in early April, this survey drew responses from about 600 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural Conditions

Still Heading Downhill. Economic conditions have deteriorated since last fall, with little relief in sight. Agricultural problems are expected to persist for several years; conditions are likely to get worse before they get better.

Forty percent of the agricultural bankers classify current economic conditions as fair, 43 percent rate local conditions poor and another 10 percent very poor. Economic conditions appeared the weakest in Iowa, with two-thirds of the bankers calling current conditions poor or very poor. Wisconsin bankers were the most upbeat. One-fourth of these bankers considered current economic conditions good and another 59 percent fair.

Most bankers anticipate no improvement in local economic conditions during 1985. More than one-third of the agricultural bankers are braced for more difficult economic times.

Bankers estimate that one-third of their farm borrowers had negative cash flow in 1984. Their estimates ranged from a low of 10 percent or less for one-fourth of the agricultural bankers to a high of at least 50 percent for another one-fourth of the bankers. The number of farmers with negative cash flow was above average in Montana, Iowa and Nebraska, but below average in Wisconsin and North Dakota.

Cash-flow problems are not limited to those farm operations with high debt-to-asset ratios, but include a number of medium-sized farms with ratios of 40 percent or less. Grain farmers in particular are having a hard time holding their own.

Despite these problems, bankers appeared to be sticking with the vast majority of their customers; all but 4 percent of their farm borrowers were expected to be given operating loans this spring. This does not mean that a similar percentage of land will lie idle this year. Those who are refused loans may receive operating loans elsewhere, or the land may be farmed by someone else.

Land Prices Still Declining. According to the region's bankers, cropland and pastureland prices are down an average of 19 percent from a year ago. Land prices are expected to remain under pressure. Sixty percent of the bankers forecast declining land values during the next 12 months; the remainder anticipate fairly stable land prices. The depth to which land prices will ultimately dip depends in large degree on potential changes in farm legislation and the strength of the U.S. dollar.

At present, land prices are estimated to average about $1,400 per acre in Iowa, but considerable variation was evident. One-fourth of the Iowa bankers valued good cropland at $1,700 per acre or higher. In grain-producing areas of Minnesota, good cropland was pegged at $1,000 per acre. One-fourth of these Minnesota bankers said land prices were $1,300 per acre or higher. Nebraska figures were about $100 less than Minnesota's. Much of the pastureland in Montana, North Dakota and South Dakota fell in the $125 to $225 per acre range.

Failure Rate Increasing. The number of farmers going out of business is on the rise. Bankers estimated that 2.8 percent of their customers quit farming during the past 12 months. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural bankers to a high of at least 5 percent for another one-fourth of the bankers. These figures are up from previous surveys. Figures for Wisconsin, Montana and western North Dakota were somewhat lower than average.

Heavy debt loads, depressed farm earnings and eroding asset values will continue to take their toll. Bankers estimate that another 4.5 percent of their customers may discontinue operations during the next year. The exit rate could remain at that level for several years. The failure rate could go even higher if federal policy is modified too abruptly toward a market-driven farm program.

FmHA Debt Adjustment Program. As currently structured, the Farmers Home Administration's debt adjustment

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- Complete survey results

Spring 1985 Regional Economic Survey

Conducted by:
Norwest Corporation, Economics Department
Norwest Banks, Financial Institutions Group

Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* ***loan-to-deposit*** *ratio?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	59.2%	50.0%	60.0%	69.0%
Minnesota	63.8	55.0	64.0	73.0
North Dakota	50.7	40.0	50.5	62.0
South Dakota	52.7	41.5	50.5	65.0
Montana	63.4	50.0	67.3	72.3
Wisconsin	61.0	58.0	64.0	67.5
Iowa	56.2	50.0	57.0	63.9
Nebraska	61.6	51.5	64.0	70.3
Twin Cities Banks	65.9	58.0	65.5	72.5
N. Minn-Wisc.	62.4	55.3	65.0	70.0

2. ***Loan-to-deposit ratio*** *higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	18%	53%	30%
Minnesota	22	57	21
North Dakota	5	46	49
South Dakota	18	50	32
Montana	23	47	30
Wisconsin	6	50	44
Iowa	16	50	34
Nebraska	21	56	23
Twin Cities Banks	18	47	34
N. Minn.-Wisc.	10	48	41

3. ***Typical interest rate*** *charged for operating loans?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	13.9%	13.5%	14.0%	14.0%
Minnesota	13.9	13.5	14.0	14.0
North Dakota	13.8	13.5	13.8	14.0
South Dakota	14.0	13.5	14.0	14.5
Montana	14.0	13.7	14.0	14.5
Wisconsin	13.7	13.1	13.5	14.0
Iowa	13.9	13.5	13.9	14.0
Nebraska	13.8	13.5	13.8	14.0
Twin Cities Banks	13.3	12.5	13.5	14.0
N. Minn-Wisc.	13.8	13.0	14.0	14.5

4. *Percentage change in* ***loan volume*** *during the* ***past 12 months?***

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	2.0%	-1.0%	0.0%	6.0%
Minnesota	3.1	0.0	0.0	7.3
North Dakota	1.7	-2.0	0.0	5.5
South Dakota	0.7	-1.0	0.0	5.5
Montana	2.3	0.0	0.0	6.0
Wisconsin	2.2	-1.5	2.0	6.0
Iowa	2.0	-2.0	0.0	7.0
Nebraska	0.0	-7.0	0.0	5.8
Twin Cities Banks	11.2	5.0	11.7	20.0
N. Minn-Wisc.	4.2	0.0	4.0	10.0

5. ***Anticipated loan growth*** *during the* ***next 12 months*** *compared with past year?*

	Higher	Same	Lower
All Ag Banks	23%	58%	20%
Minnesota	22	60	18
North Dakota	36	52	12
South Dakota	32	47	21
Montana	33	47	20
Wisconsin	18	76	6
Iowa	15	63	22
Nebraska	15	57	28
Twin Cities Banks	37	50	13
N. Minn.-Wisc.	21	45	34

6. *Anticipated trend in* ***loan-to-deposit ratio*** *during next 12* ***months?***

	Higher	Same	Lower
All Ag Banks	35%	49%	16%
Minnesota	31	56	13
North Dakota	37	51	12
South Dakota	47	24	29
Montana	43	37	20
Wisconsin	24	76	0
Iowa	33	52	15
Nebraska	39	41	20
Twin Cities Banks	53	34	13
N. Minn.-Wisc.	31	48	21

7. *Percentage change in* ***bank deposits*** *during the past 12 months?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	3.6%	0.0%	3.2%	8.0%
Minnesota	3.9	0.0	4.0	8.3
North Dakota	6.0	2.2	6.0	10.0
South Dakota	4.0	0.0	5.0	7.0
Montana	2.7	0.0	2.0	5.0
Wisconsin	6.3	0.0	6.0	10.5
Iowa	1.7	0.0	0.0	5.5
Nebraska	3.2	0.0	3.2	7.8
Twin Cities Banks	10.0	8.0	10.0	14.0
N. Minn-Wisc.	5.2	0.0	5.0	10.0

8. ***Percentage*** *of total loan portfolio that is* ***farm loans?***

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	45.1%	25.0%	45.0%	65.0%
Minnesota	38.3	21.0	37.0	55.0
North Dakota	50.7	27.3	52.2	75.0
South Dakota	63.9	55.0	65.0	80.0
Montana	28.8	10.0	25.0	40.7
Wisconsin	34.1	14.0	30.0	55.0
Iowa	43.8	28.0	40.5	60.0
Nebraska	60.2	44.5	65.0	80.0
Twin Cities Banks	1.6	0.0	0.0	2.0
N. Minn-Wisc.	7.7	0.0	2.0	13.0

9a. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	5.4%	1.0%	3.0%	8.0%
Minnesota	6.0	1.0	3.0	9.5
North Dakota	4.5	1.0	2.0	5.0
South Dakota	5.9	1.0	3.0	10.0
Montana	5.1	0.0	4.5	8.5
Wisconsin	3.8	0.0	2.0	7.6
Iowa	5.4	1.0	4.0	8.3
Nebraska	5.2	1.0	3.0	8.0

9b. Percentage of total **loan portfolio** that is **nonperforming?**

	Survey Average	Response by Percentile 25th	50th	75th
Twin Cities Banks	1.2%	0.0%	1.0%	1.5%
N. Minn-Wisc.	2.5	0.3	1.6	3.0

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	911	500	900	1200
Minnesota	974	700	1000	1200
North Dakota	508	300	450	575
South Dakota	420	250	312	600
Montana	557	325	420	750
Wisconsin	725	600	700	800
Iowa	1378	1125	1400	1687
Nebraska	896	612	900	1200

10b. Current **market value** of good **pastureland?** (Dollars per acre)

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	330	185	275	400
Minnesota	395	250	300	500
North Dakota	180	125	150	212
South Dakota	188	150	182	225
Montana	207	100	150	250
Wisconsin	340	250	300	400
Iowa	500	350	400	650
Nebraska	252	145	200	350

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-18.9%	-25.0%	-20.0%	-10.0%
Minnesota	-20.6	-30.0	-20.0	-11.0
North Dakota	-14.8	-20.0	-15.0	-10.0
South Dakota	-15.8	-25.0	-13.5	-8.8
Montana	-11.9	-20.0	-10.0	-2.5
Wisconsin	-12.0	-22.5	-10.0	-5.0
Iowa	-22.6	-30.0	-25.0	-15.0
Nebraska	-19.7	-25.0	-20.0	-15.0

11b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-19.0%	-25.0%	-20.0%	-10.0%
Minnesota	-18.2	-25.0	-17.5	-10.0
North Dakota	-15.7	-25.0	-15.0	-10.0
South Dakota	-17.9	-27.6	-15.0	-10.0
Montana	-10.9	-20.0	-10.0	0.0
Wisconsin	-11.2	-15.0	-10.0	-2.5
Iowa	-25.0	-30.0	-25.0	-20.0
Nebraska	-22.2	-30.0	-20.0	-15.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	1%	39%	60%
Minnesota	1	42	57
North Dakota	0	37	63
South Dakota	0	37	63
Montana	0	40	60
Wisconsin	0	50	50
Iowa	3	34	63
Nebraska	0	43	57

13. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	16%	68%	16%
N. Minn.-Wisc.	7	41	52

14. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	32%	58%	11%
N. Minn.-Wisc.	10	59	31

15. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	30%	68%	3%
N. Minn.-Wisc.	25	50	25

16. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	59%	38%	3%
N. Minn.-Wisc.	45	41	14

17. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	45%	47%	8%
N. Minn.-Wisc.	34	45	21

18. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	42%	53%	5%
N. Minn.-Wisc.	21	38	41

Survey *(continued from page 5)*

the past 12 months to within 4 percent of the pre-recession peak.

But after last year's strong rebound, the local economy appears to be catching its breath—overall nonfarm employment grew very little during the first quarter of 1985. Nevertheless, bankers were optimistic about the prospects for the balance of the year. They forecast continued strong consumer and business spending. About 70 percent of the bankers expect overall conditions to remain near last year's level, while another 24 percent anticipate continued improvement during the next six months.

Northern Minnesota/Wisconsin

Weakness Continues. One-third of the bankers characterize economic conditions as poor, 52 percent fair and only 14 percent good. Housing and capital expenditures remain in the doldrums; no improvement is forecast.

General retail sales are about the same as a year ago, while auto sales are a tad better. Very modest improvement, if any, is anticipated in consumer spending during the next six months.

One-fourth of the bankers expect overall economic conditions to be worse six months from now, while 62 percent anticipate little change. Bankers forecast a good season for the tourist industry, while mining activity is expected to remain at about 50 percent of the previous peak.

Credit Conditions

Agricultural Banks

Loan Demand Slows. After rebounding modestly in 1984, loan demand has leveled off again. Last year loan volume at country banks increased about 5 percent. This spring, overall loan volume averaged 2 percent more than a year ago; the median response indicated no change in loan volume. Twenty-five percent of the banks reported a decline of at least 1 percent, while another 25 percent had an increase of at least 6 percent. Little variation was evident among the individual states in the region.

Loan-to-deposit ratios averaged 59.2 percent, down seasonally from last fall, but up fractionally from a year ago. One-fourth of the banks had a ratio of 50 percent or less, while another one-fourth had a ratio of 69 percent or more. North Dakota and South Dakota had ratios well below average, while Minnesota and Montana were notably above average. Thirty percent of all banks surveyed viewed their loan-to-deposit ratios as lower than desired, down from more than one-half of the banks two years ago.

Deposits at agricultural banks increased an average of only 3.6 percent from a year ago, continuing a downward trend in deposit growth that began several years ago. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more.

Bankers think loan demand and deposit growth will remain weak. The typical interest rate charged for farm operating loans averaged 13.9 percent in April, down from 14.7 percent last October.

Nonperforming Farm Loans. Agricultural loans made up an average of 45 percent of all loans in the portfolios of the banks that responded to this survey. On average, 5.4 percent of these agricultural loans were nonperforming—either requiring interest concessions or not accruing any interest. One-fourth of the banks said that at least 8 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming. Problem loans were somewhat lower than average in Wisconsin and North Dakota.

Twin Cities Banks

Robust Loan Demand. Total loans outstanding increased an average of 11.2 percent during the past 12 months, only slightly less than 1984's hefty gain of 14 percent. One-fourth of the banks reported increases of 5 percent or less, while another one-fourth experienced growth of 20 percent or more. Interest rates charged on operating loans averaged 13.3 percent in early April, down 1.4 points from last fall.

Deposits were up a healthy 10 percent from a year ago, but fell shy of the 16 percent spurt reported last April. Deposits were up 8 percent or less at one-fourth of the banks, while they rose 14 percent or more at another one-fourth of the banks.

The average loan-to-deposit ratio inched up about one-half of a point since October to 65.9 percent—the highest level in over two years. One-fourth of the banks had a ratio of 58 percent or less, while another one-fourth had a ratio of 72 percent or more. One-third of the bankers still viewed their ratios as lower than desired, down from two-thirds in 1983.

On average, 1.2 percent of all loans at Twin Cities banks were classified as nonperforming. One-fourth of the banks said that none of their loans were nonperforming.

Most Twin Cities bankers look for continued strong loan demand during the next 12 months. Higher loan-to-deposit ratios were also predicted.

Northern Minnesota/Wisconsin

Credit Weakness Persists. Loan volume is up an average of 4 percent from a year ago, a slight slackening from recent surveys. Despite this weak overall pattern, one-fourth of the banks in this region reported increases of 10 percent or more. The lower quartile, however, reported no increase and in some cases a decline. Bankers predict loan demand will slow even further during the next 12 months, a reflection of weak economic conditions.

On average, 2.5 percent of all loans at these banks were nonperforming. This figure was 0.3 percent or less at one-fourth of the banks. Agricultural loans are a relatively small portion of total loan volume at banks in this part of the region. However, agricultural loans accounted for at least 13 percent of all loans at one-fourth of these banks.

The typical interest rate charged for operating loans averaged 13.8 percent in early April, down 1 point from October. Deposit growth averaged 5 percent during the past 12 months, down from last October's figure of 8.6 percent.

The average loan-to-deposit ratio increased 0.7 points during the past six months to 62.4 percent, the highest level since October 1981. Yet, 41 percent of the bankers viewed their ratio as lower than desired. Twenty-five percent of the banks had a ratio of 55 percent or less, while another 25 percent had a ratio of 70 percent or more.

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19. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	7%	40%	43%	10%
Minnesota	1	9	44	38	8
North Dakota	0	8	39	48	5
South Dakota	0	5	39	42	13
Montana	0	3	50	33	13
Wisconsin	0	24	59	18	0
Iowa	0	1	31	58	10
Nebraska	0	5	34	39	21
Twin Cities Banks	8	74	18	0	0
N. Minn.-Wisc.	0	14	52	31	3

20. Anticipated trend in **economic conditions** during **next six months?**

	Better	Same	Worse
All Ag Banks	4%	61%	35%
Minnesota	4	60	36
North Dakota	3	57	39
South Dakota	5	51	43
Montana	13	63	23
Wisconsin	6	76	18
Iowa	4	63	33
Nebraska	2	62	36
Twin Cities Banks	24	71	5
N. Minn.-Wisc.	14	62	24

21. Percentage of farm borrowers having **negative cash flow** in 1984?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	34.4%	10.0%	25.0%	50.0%
Minnesota	30.4	10.0	25.0	50.0
North Dakota	24.4	10.0	20.0	31.5
South Dakota	34.7	15.0	25.0	50.0
Montana	41.4	11.5	40.0	75.0
Wisconsin	19.1	10.0	15.0	20.0
Iowa	43.3	15.0	40.0	70.0
Nebraska	40.0	20.0	36.0	57.5

22. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	2.8%	1.0%	2.0%	5.0%
Minnesota	2.6	1.0	2.0	4.0
North Dakota	2.5	1.0	2.0	3.0
South Dakota	3.1	0.3	2.0	4.8
Montana	2.1	0.0	1.0	2.3
Wisconsin	1.8	0.0	1.0	3.0
Iowa	3.2	1.0	2.0	5.0
Nebraska	3.2	1.0	2.1	5.0

23. Percentage of farm customers likely to **discontinue operating** during **next 12 months?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.5%	2.0%	4.0%	5.0%
Minnesota	4.4	2.0	3.0	5.0
North Dakota	4.2	2.0	3.0	5.0
South Dakota	4.2	1.0	4.0	5.0
Montana	3.5	0.0	2.0	5.0
Wisconsin	3.2	1.0	2.5	5.0
Iowa	5.0	2.0	5.0	8.0
Nebraska	5.4	2.0	5.0	5.0

24. Percentage of farm borrowers **not given operating loans** this spring?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.0%	1.0%	2.0%	5.0%
Minnesota	3.8	1.0	2.0	5.0
North Dakota	2.8	0.0	2.0	5.0
South Dakota	5.2	1.0	3.0	5.0
Montana	4.9	0.0	1.5	5.0
Wisconsin	3.1	1.0	2.0	5.0
Iowa	4.2	1.0	3.5	5.0
Nebraska	4.7	1.0	2.0	5.0

25. Percentage of farm borrowers likely to qualify for **FmHA guarantees?**

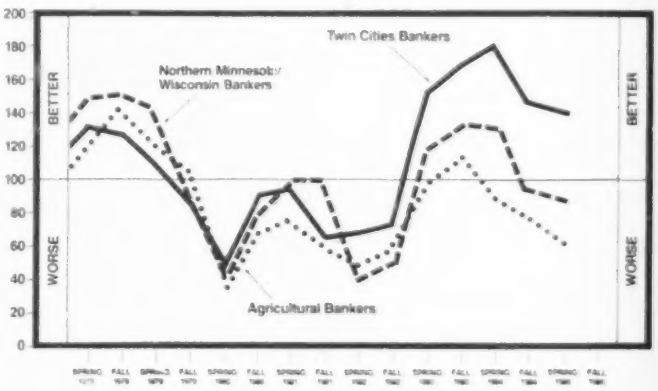
	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.6%	0.0%	2.0%	5.0%
Minnesota	5.5	0.0	2.0	7.4
North Dakota	4.6	0.0	1.0	5.0
South Dakota	6.6	0.0	2.0	10.0
Montana	4.8	0.0	0.0	10.0
Wisconsin	1.6	0.0	0.5	2.0
Iowa	3.5	0.0	2.0	5.0
Nebraska	3.6	0.0	1.0	5.0

26. What modifications would you make in price-support **loan rates** and **target prices?**

	Lower to Free-Market	Decrease Modestly	No Change	Increase Supports
All Ag Banks	15%	22%	31%	32%
Minnesota	15	23	35	37
North Dakota	11	24	45	20
South Dakota	9	27	24	39
Montana	26	30	41	4
Wisconsin	29	35	18	18
Iowa	16	18	31	35
Nebraska	16	14	34	36

UPPER MIDWEST CONFIDENCE INDEX

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Banker's Views: *Farm Policy and Economic Prospects*

Iowa - *"U.S. farm policy will need to stay at current levels with some emphasis on idling more land."*

"Limit the number of bushels produced on the farm and support this amount of production."

"Restrict our production base to a size that would supply our domestic needs."

"We cannot compete world-wide with a 'free-market' policy when ours is the only country using that policy."

"It may be the best in the long run to move quickly and adjust the market rather than drag it out over time."

Minnesota - *"We are very concerned about dairy prices; some cutting can be absorbed but not too much."*

"It is alarming to hear how much our customers are increasing their dairy herds."

"With land prices dropping, agriculture does not have a safety net of collateral values to get farmers through a poor year."

"I like market-oriented policy, but feel it's unattainable. Farmers will need some assistance in transition."

"Until the federal deficit, interest rates and value of the dollar are brought under control, free-market economics will not work in agriculture."

"Maintain current policies until deficit and interest rates show improvement—perhaps (tie) adjustment in ag policy to these factors."

Montana - *"Cattle look strong if we get moisture to bring grass back from drought conditions."*

"Government intervention causes more long term problems and dislocation than it solves."

"We need a long term ag policy. Not one that changes with each administration."

Nebraska - *"Commodity prices must change from current levels. Without any changes, we will see between 30 and 50 percent of our farmers going out of business."*

"We feel that the farm economy in this area is going to be tough through 1989-90."

"Interest rate relief would help. Need federal corporation like proposed Agricultural Conservation Corporation to stabilize land values."

North Dakota - *"We need to get to a market-oriented grain market, but in gradual steps after deficit reduction, devaluation of the dollar and farm economy turnaround."*

"Reduction in supports at this time will be disastrous for our area."

"Our area raises a lot of potatoes, sugar beets, edible beans; these crops have been profitable."

"We are concerned about the next two or three years when we anticipate problems for those who are getting by at present time."

South Dakota - *"Our area rather fortunate; most farmers showing slight gains through 1984."*

"Outlook is bleak for grain producers. This year will see further erosion of land values and a decrease of from 10-20% of operators."

"Very poor in our area, not too much chance for improvement."

Wisconsin - *"The percentage of farmers in deep trouble now is small, but if milk prices continue to fall to $10.00 per cwt., the percentage in trouble will approach 30 to 40 percent."*

"I would put the milk program on a base and surplus formula—paying the farmer well for a base poundage; very little for the excess."

"Put a production limit on support programs at a level equal to production on a modest sized family farm."

Twin Cities - *"(Outlook) depends on how Congress addresses budget deficits. A strong approach to reduce deficits will foster confidence."*

"Very good outlook."

"Steady to improving (outlook)."

Northern Minnesota/Wisconsin - *"We look for good tourist business in '85."*

"Mining and related industries should be stable, but still less than 50 percent of peak capacity."

"(Outlook) slightly better than it is now, but still tough."

Survey *(continued from page 1)*

program (DAP) will only help a limited number of farmers. Bankers estimate that 5 percent of their farm borrowers will qualify for DAP loan guarantees. Even with some interest-rate concession, some farm operations still won't have a positive cash flow. Banks can only mark down interest rates so far. To assist more producers, a government interest-rate subsidy may be required. Bankers also cite a number of administrative factors that are limiting the use of the FmHA guarantee program in certain portions of the region.

Farm Policy Views Differ. About 15 percent of the bankers surveyed favored lowering price-support loan rates and target prices to free-market levels. Another 22 percent advocated a modest reduction in support levels. On the other hand, nearly one-third of the bankers called for increases in government supports for farmers, even if that meant idling more land. The remaining 31 percent favored no change in price supports, at least for the moment. A larger than average number of Montana and Wisconsin bankers favored a move towards a free-market farm policy, while nearly half of the bankers in eastern South Dakota and the grain-producing areas of Minnesota advocated increasing price supports.

Some bankers advocated a gradual transition to a market-oriented farm program, but only after the farm economy improved. Others cited lowering the federal government deficit as the key to a healthier agricultural economy.

Twin Cities Economy

Expansion Continues. Most Twin Cities bankers rated local economic conditions good to very good. Auto sales, general retail sales and housing starts are up from last year's favorable level. However, capital outlays by businesses show less change.

As of March 1985, Twin Cities nonfarm wage and salary employment was 7.5 percent above the peak reached before the 1981-82 recession. This was a couple of percentage points better than the national recovery.

Twin Cities manufacturing jobs are at a record level, while the nation's manufacturing sector is 7 percent shy of the previous peak. Local construction employment shot up 18 percent during

(continued on back page)

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST NOVEMBER 14, 1985

Fall 1985 Regional Economic Survey

Our 19th semiannual survey of the region's bankers sheds additional light on the scope and magnitude of farm problems and their impact on lenders and rural communities. Among other topics, this survey tracks changes in land prices, farm liquidations, loan problems and bankers' views on economic prospects for 1986.

The survey also indicates that, in contrast to bankers in rural areas, Twin Cities bankers anticipate a continuation of relatively healthy economic conditions. Meanwhile, weak economic conditions are expected to linger in the northern portions of Minnesota and Wisconsin. Conducted in October, this survey drew responses from 950 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural conditions

Tougher Times Ahead. Depressed crop prices, severe devaluation of land and machinery, heavy debt loads and uncertainty regarding government programs continue to plague the rural economy. Forty-five percent of the bankers classify current economic conditions as poor and 15 percent very poor. Another 36 percent rate local conditions as fair.

Some bankers describe agricultural conditions as equivalent to the Depression in the 1930s. The only difference is that farmers with little or no debt are making some money.

Economic conditions appeared the weakest in Iowa and Nebraska, with two-thirds to three-fourths of these bankers calling current conditions poor or very poor. Wisconsin and eastern North Dakota bankers were the most positive. About 60 percent of these bankers rated current economic conditions fair and another 10 percent good.

Bankers estimate that nearly 30 percent of their farm borrowers will have negative cash flow in 1985. Estimates ranged from a low of 10 percent or less for one-fourth of the bankers to a high of at least 45 percent for another one-fourth of the bankers. Bankers indicate that excellent crop yields have helped to take some of the sting out of depressed crop prices.

Bankers are braced for mounting problems. Forty-five percent of the agricultural lenders expect further deterioration in overall economic conditions during the next six months, while 52 percent anticipate little change. Bleak, grim and terrible were some of the terms used to describe the outlook for 1986. Depressed conditions are expected to persist for several years as considerable restructuring takes place in agriculture.

Bankers are worried about the domino effect on mainstreet business in rural communities. So far, mainstreet business failures have been at least as great as farm failures. Some bankers indicate that one-fourth of the mainstreet businesses could close during the next year.

Equity Disappearing. According to the region's bankers, cropland and pastureland prices are down more than 20 percent from a year ago. One-fourth of the banks reported declines of at least 30 percent while another one-fourth said land prices were down 15 percent or less. Nebraska, Iowa and Minnesota generally reported the largest declines. With cumulative declines in land values of about 65 percent since the early '80s, heavily indebted operators have frequently lost much or all of their equity in land.

At present, land prices are estimated to average about $1,150 per acre in Iowa, but considerable variation was evident. One-fourth of the Iowa bankers valued good cropland at $1,300 per acre or higher. In grain-producing areas of Minnesota, good cropland was pegged at $900 per acre. One-fourth of these bankers pegged land prices at $1,000 or more per acre. Farmland in Nebraska was valued at $730 per acre, with the upper quartile reporting land values in the $900 range.

Much of the pastureland in North Dakota and South Dakota fell in the $125 to $225 per acre range. Good cropland averaged about $400 per acre in these two states, varying from $200 per acre in western South Dakota to $650 per acre in eastern North Dakota.

Seventy percent of the bankers forecast continued downward movement in land values during the next 12 months as additional amounts of land come up for sale. However, some bankers felt investors would step in once the farm program was finalized, thereby slowing the rate of decline in land values.

Exit Rate Increasing. The number of farmers going out of business continues to rise. Bankers estimate that 3.1 percent of their customers quit farming during the past 12 months. Their estimates ranged from a low of 1 percent or less for one-fourth of the bankers to a high of at least 5 percent for another one-fourth of the bankers. They predicted that another 5 percent of their customers may discontinue operations during the next year.

Bankers indicated that about 65 percent of their farm borrowers are being given normal supervision, and presumably can survive these difficult times. The number of relatively strong accounts ranged as high as 80 percent

(continued on page 5)

Time is money

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Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* **loan-to-deposit** *ratio?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	57.5%	48.0%	58.0%	67.0%
Minnesota	62.2	55.0	63.0	70.0
North Dakota	51.7	42.0	50.0	61.5
South Dakota	53.5	42.0	54.0	64.8
Montana	64.6	54.0	66.5	74.8
Wisconsin	59.9	55.0	61.5	65.8
Iowa	53.6	45.0	54.0	63.0
Nebraska	64.1	50.3	65.5	75.0
Twin Cities Banks	65.5	56.5	64.5	72.4
N. Minn.-Wisc	62.4	56.0	64.0	70.0

2. **Loan-to-Deposit** *ratio higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	15%	48%	37%
Minnesota	15	55	29
North Dakota	6	36	59
South Dakota	20	47	33
Montana	9	63	28
Wisconsin	14	31	55
Iowa	14	47	39
Nebraska	28	43	29
Twin Cities Banks	15	41	44
N. Minn.-Wisc.	4	47	49

3. **Typical interest rate** *charged for operating loans?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	13.2%	13.0%	13.3%	13.5%
Minnesota	13.4	13.0	13.5	13.6
North Dakota	13.1	12.8	13.0	13.5
South Dakota	13.3	13.0	13.5	13.8
Montana	13.0	12.5	13.0	13.5
Wisconsin	13.0	12.5	13.0	13.5
Iowa	13.2	13.0	13.3	13.5
Nebraska	13.2	13.0	13.0	13.5
Twin Cities Banks	12.3	11.5	12.0	13.0
N. Minn.-Wisc.	13.0	12.6	13.0	13.5

4. *Percentage change in* **loan volume** *during the* **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	0.0%	-5.0%	0.0%	5.0%
Minnesota	0.8	-3.8	0.0	6.0
North Dakota	-0.5	-4.3	0.0	4.0
South Dakota	-1.3	-7.0	0.0	4.5
Montana	0.5	-5.0	0.0	9.1
Wisconsin	2.1	-3.0	0.0	6.0
Iowa	-0.1	-5.0	0.0	5.0
Nebraska	-1.7	-6.7	0.0	1.1
Twin Cities Banks	5.5	0.0	1.0	10.0
N. Minn.-Wisc.	2.2	-0.5	2.0	7.0

5. *Anticipated* **loan growth** *during the* **next 12 months** *compared with past year?*

	Higher	Same	Lower
All Ag Banks	14%	54%	32%
Minnesota	14	56	31
North Dakota	23	57	20
South Dakota	6	62	31
Montana	16	47	38
Wisconsin	15	65	19
Iowa	14	52	33
Nebraska	11	46	43
Twin Cities Banks	33	60	8
N. Minn.-Wisc.	18	63	20

6. *Anticipated trend in* **loan-to-deposit ratio** *during* **next 12 months?**

	Higher	Same	Lower
All Ag Banks	16%	49%	35%
Minnesota	17	50	33
North Dakota	29	51	20
South Dakota	10	52	38
Montana	19	47	34
Wisconsin	25	48	27
Iowa	16	47	37
Nebraska	7	43	50
Twin Cities Banks	32	51	17
N. Minn.-Wisc.	16	63	22

7. *Percentage change in* **bank deposits** *during the past 12 months?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.0%	0.0%	3.0%	7.6%
Minnesota	4.4	0.0	5.0	8.2
North Dakota	3.9	0.0	5.0	9.0
South Dakota	2.9	0.0	3.0	8.0
Montana	1.5	0.0	2.5	5.8
Wisconsin	6.8	3.3	6.0	9.5
Iowa	1.8	-0.5	1.0	7.0
Nebraska	0.3	-5.0	0.0	5.0
Twin Cities Banks	8.1	5.0	7.0	11.7
N. Minn.-Wisc.	7.3	1.3	7.0	10.0

8. **Percentage** *of total loan portfolio that is* **farm loans?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	49.3%	30.0%	50.0%	70.0%
Minnesota	42.1	25.0	40.0	60.0
North Dakota	53.0	33.9	50.5	70.0
South Dakota	63.1	50.0	70.0	80.0
Montana	32.7	17.0	30.0	42.0
Wisconsin	34.8	17.0	30.5	51.5
Iowa	51.3	34.3	50.0	70.0
Nebraska	61.8	50.0	66.0	76.2
Twin Cities Banks	2.1	0.0	0.0	0.8
N. Minn.-Wisc.	6.2	0.0	1.0	10.3

9A. *Percentage of total* **loan portfolio** *that is* **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
Twin Cities Banks	1.2%	0.0%	1.0%	1.5%
N. Minn.-Wisc.	2.7	0.5	1.7	3.0

9B. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.2%	1.0%	3.0%	7.5%
Minnesota	6.0	1.0	4.0	10.0
North Dakota	3.2	0.1	2.0	5.0
South Dakota	6.0	1.0	3.0	10.0
Montana	4.3	0.0	2.0	6.6
Wisconsin	4.3	0.6	2.5	7.3
Iowa	5.2	1.0	3.5	7.0
Nebraska	4.9	1.3	4.4	7.8

Business Conditions

10A. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	849	500	850	1100
Minnesota	841	700	800	1000
North Dakota	474	300	400	600
South Dakota	387	250	350	500
Montana	439	250	300	700
Wisconsin	679	500	700	825
Iowa	1149	1000	1200	1300
Nebraska	731	500	750	900

10B. Current **market value of pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	314	175	300	400
Minnesota	333	200	300	400
North Dakota	167	125	150	200
South Dakota	188	125	175	250
Montana	142	75	100	100
Wisconsin	296	200	288	400
Iowa	428	300	400	500
Nebraska	217	100	175	300

11A. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 21.5%	– 30.0%	– 20.0%	– 15.0%
Minnesota	– 23.5	– 30.0	– 20.0	– 15.0
North Dakota	– 14.8	– 20.0	– 15.0	– 10.0
South Dakota	– 18.0	– 25.0	– 15.0	– 10.0
Montana	– 16.9	– 23.8	– 15.8	– 10.0
Wisconsin	– 15.3	– 20.0	– 15.0	– 10.0
Iowa	– 23.9	– 30.0	– 25.0	– 20.0
Nebraska	– 21.1	– 27.0	– 20.0	– 15.0

11B. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 21.8%	– 30.0%	– 20.0%	– 10.0%
Minnesota	– 22.6	– 30.0	– 20.0	– 10.0
North Dakota	– 13.8	– 20.0	– 15.0	– 6.0
South Dakota	– 19.7	– 25.0	– 20.0	– 10.0
Montana	– 17.2	– 23.8	– 15.0	– 10.0
Wisconsin	– 14.7	– 20.0	– 10.0	– 10.0
Iowa	– 24.6	– 33.1	– 25.0	– 15.0
Nebraska	– 25.6	– 33.0	– 25.0	– 20.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	1%	29%	70%
Minnesota	1	28	71
North Dakota	0	34	66
South Dakota	0	34	66
Montana	0	25	75
Wisconsin	0	48	52
Iowa	1	25	74
Nebraska	0	30	70

13. Are **capital expenditiures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	17%	51%	32%
N. Minn.-Wisc.	16	41	43

14. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	15%	63%	22%
N. Minn.-Wisc.	6	57	37

15. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	24%	54%	22%
N. Minn.-Wisc.	20	61	20

16. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	76%	17%	7%
N. Minn.-Wisc.	56	36	8

17. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	27%	56%	17%
N. Minn.-Wisc.	10	66	24

18. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	63%	29%	7%
N. Minn.-Wisc.	24	33	43

19. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	4%	36%	45%	15%
Minnesota	0	7	34	42	17
North Dakota	0	4	51	39	6
South Dakota	0	4	42	40	14
Montana	0	0	38	50	13
Wisconsin	0	13	56	25	6
Iowa	0	2	31	50	16
Nebraska	0	1	24	54	21
Twin Cities Banks	0	78	20	2	0
N. Minn.-Wisc.	0	13	51	33	3

20. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	2%	52%	45%
Minnesota	1	44	55
North Dakota	0	72	28
South Dakota	1	47	52
Montana	9	59	31
Wisconsin	0	67	33
Iowa	4	52	44
Nebraska	1	55	43
Twin Cities Banks	12	83	5
N. Minn.-Wisc.	12	70	18

21. Percentage of farm borrowers having **negative cash flow** in 1985?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	28.7%	10.0%	20.0%	45.0%
Minnesota	32.8	10.0	25.0	50.0
North Dakota	19.0	5.0	15.0	30.0
South Dakota	31.4	15.0	29.0	50.0
Montana	49.0	28.0	50.0	75.0
Wisconsin	19.4	5.0	15.0	29.0
Iowa	27.1	10.0	20.0	40.0
Nebraska	26.7	10.0	20.0	50.0

22. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.1%	1.0%	2.0%	5.0%
Minnesota	3.7	1.0	2.0	5.0
North Dakota	2.3	0.4	1.3	3.0
South Dakota	3.0	0.1	1.5	5.0
Montana	1.4	0.0	0.1	1.8
Wisconsin	2.6	0.0	2.0	5.0
Iowa	3.1	1.0	2.0	5.0
Nebraska	3.2	1.0	2.0	5.0

23. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.2%	2.0%	5.0%	7.0%
Minnesota	5.9	2.0	5.0	10.0
North Dakota	3.5	2.0	2.5	5.0
South Dakota	5.1	2.0	5.0	9.3
Montana	4.1	0.0	4.5	5.0
Wisconsin	3.6	1.0	2.5	5.0
Iowa	5.3	2.0	5.0	6.3
Nebraska	5.7	3.0	5.0	10.0

24A. Percentage of farm borrowers being given **normal supervision?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	65.5%	50.0%	70.0%	80.0%
Minnesota	64.9	50.0	70.0	80.0
North Dakota	71.9	60.5	75.0	85.0
South Dakota	65.0	50.0	70.0	80.0
Montana	70.3	52.3	78.0	90.0
Wisconsin	75.7	70.0	80.0	90.0
Iowa	63.5	50.0	65.0	80.0
Nebraska	61.0	50.0	60.0	80.0

24B. Percentage of farm borrowers identified as a **weak credit** and receiving **special attention?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	22.5%	10.0%	20.0%	30.0%
Minnesota	21.6	10.0	20.0	30.0
North Dakota	18.6	10.0	20.0	21.8
South Dakota	22.6	15.0	20.0	30.0
Montana	21.5	8.3	14.5	30.0
Wisconsin	14.4	7.0	13.0	20.0
Iowa	24.5	14.0	20.0	30.0
Nebraska	26.1	10.0	24.0	35.0

24C. Percentage of farm borrowers identified as a **very weak credit** with **potential for loss?**

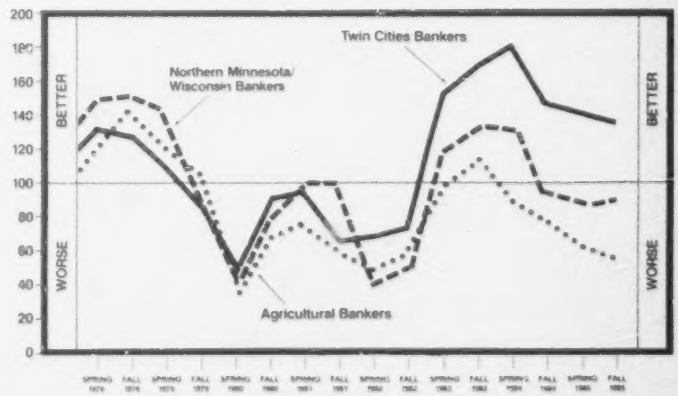
	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	8.9%	3.0%	6.0%	10.0%
Minnesota	10.2	4.0	8.0	15.0
North Dakota	7.1	2.0	5.0	10.0
South Dakota	8.9	2.0	7.0	11.0
Montana	5.6	0.0	5.0	10.0
Wisconsin	5.9	2.0	5.0	8.3
Iowa	9.0	4.0	7.0	10.0
Nebraska	9.1	4.3	10.0	11.5

24D. Percentage of farm borrowers for which **foreclosure or bankruptcy** is in progress or imminent?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.1%	0.0%	2.0%	5.0%
Minnesota	3.4	0.0	2.0	5.0
North Dakota	2.3	0.0	2.0	4.0
South Dakota	3.4	0.2	2.0	5.0
Montana	2.3	0.0	1.0	5.0
Wisconsin	3.1	0.8	2.0	5.0
Iowa	3.0	0.0	2.0	5.0
Nebraska	3.6	1.0	4.0	5.0

UPPER MIDWEST CONFIDENCE INDEX

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months.



Survey (continued from page 1)

or more at one-fourth of the banks, to about 50 percent of less at another one-fourth of the banks.

On average, about 23 percent of farm borrowers were identified as weak credits receiving special attention. Another 9 percent were identified as very weak credits with potential for loss. The remaining 3 percent of farm borrowers were either involved in foreclosure or bankruptcy proceedings, or such actions were imminent. Farm debt tends to be concentrated in the hands of these troubled credits, spelling considerable losses for agricultural lenders.

Twin Cities economy

Relatively Healthy. Nearly 80 percent of the Twin Cities bankers rated current economic conditions good; another 20 percent called local conditions fair. These are slightly lower marks than six months ago. Auto sales and housing starts are up from a year ago, while general retail sales are about the same as last year's favorable level. However, capital outlays by businesses are weaker; one-third of the bankers reported declines from a year ago, double the number reporting increases.

As of September 1985, Twin Cities nonfarm wage and salary employment was 9.25 percent above the peak reached before the 1981-82 recession. This was a couple of percentage points better than the national average. However, Twin Cities employment growth has slowed from last year's rapid pace. Employment actually dropped in September and is now only 2.6 percent higher than a year ago. This more moderate pace is likely to continue during 1986.

After reaching a new peak in February, Twin Cities manufacturing employment has been heading downward and is currently 1.25 percent less than a year ago. Declines have been widespread, including layoffs in computer and electrical-machinery manufacturing. Rapid growth in the printing and publishing industry has also ceased, at least temporarily. Construction employment has held up fairly well, averaging 4.5 percent more than a year ago.

Despite signs of a maturing economic recovery, bankers were optimistic about the prospects for the next six to twelve months. About 83 percent of the bankers expect overall economic conditions to remain steady at current favorable levels, while 12 percent anticipate continued improvement. They forecast slightly stronger consumer spending, but continued sluggish capital outlays by business.

Northern Minnesota/ Wisconsin economy

Weakness Continues. One-third of the bankers characterize economic conditions as poor, 53 percent fair and 14 percent good. General retail sales are about the same as a year ago, while auto sales are stronger. Meanwhile, housing starts are worse than a year ago.

Capital spending by businesses is also weaker than a year ago, with further declines anticipated. Bankers also forecast somewhat weaker consumer spending during the next six months.

Seventy percent of the bankers anticipate little change in overall economic conditions during the next six months; only 12 percent forecast improvement. Some bankers noted success in attracting new businesses to their local communities. However, most bankers expect economic conditions to remain fair to poor during 1986. Restructuring of the economy in this part of the region is expected to extend over a number of years.

Credit conditions

Agricultural banks

Loan Demand Subsides. After rebounding in 1984, loan demand has leveled off. Bankers indicate that loan volume is unchanged from a year ago, but considerable variation was evident. One-fourth of the banks reported a decline of at least 5 percent, while another 25 percent had increases of at least 5 percent. The typical interest rate charged for farm operating loans averaged 13.2 percent in October, down from 13.9 percent six months ago.

Loan-to-deposit ratios averaged 57.5 percent, down counter-seasonally from April and nearly 4 percentage points less than a year ago. One-fourth of the banks had a ratio of 48 percent or less, while another one-fourth had a ratio of 67 percent or more. North Dakota, South Dakota and Iowa had ratios well below average, while Montana, Nebraska and Minnesota were notably above average. About 37 percent of all banks surveyed viewed their loan-to-deposit ratios as lower than desired, up from last spring but still lower than two years ago, when the figure was more than 50 percent.

Deposits at agricultural banks increased an average of only 3 percent from a year ago, continuing a downward trend in deposit growth that began several years ago. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more. Iowa and Nebraska banks reported the weakest deposit growth.

Bankers generally forecast continued declines in loan volume and loan-to-deposit ratios; the number of bankers anticipating declines outnumbered those expecting increases by two to one. Borrowers identified as weaker credits will find it more difficult to qualify for financing.

Nonperforming Farm Loans. Agricultural loans made up an average of 50 percent of all loans in the portfolios of the banks that responded to this survey. On average, 5.2 percent of these agricultural loans were nonperforming — either requiring interest concessions or not accruing any interest. One-fourth of the banks said that at least 7.5 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming.

Tough times lie ahead for bankers and their customers as considerable restructuring takes place in agriculture. Figures presented earlier regarding the number of very weak credits with potential for loss (9 percent of all farm borrowers) suggest significant increases in nonperforming farm loans during 1986. With equity disappearing, considerable amounts of debt may have to be written off.

Twin Cities banks

Loan Demand Slows. In sharp contrast with the last three surveys, Twin Cities loan demand has slowed considerably during 1985. Total loans outstanding are up an average of 5.5 percent from a year ago; the median response showed only a 1 percent gain. This contrasts with a 14 percent jump reported last fall. One-fourth of the Twin Cities bankers reported increases of 10 percent or more, while another one-fourth reported no increase at best. Interest rates charged for operating loans averaged 12.3 percent in October, down 1 percentage point from last spring.

The average loan-to-deposit ratio declined slightly to 65.5 percent during October. One-fourth of the banks had a ratio of 56.2 percent or less, while another one-fourth had a ratio of 72.4 percent or more. Nearly 45 percent of the bankers viewed their ratios as lower than desired, up from one-third this past spring. (continued on page 6)

Survey *(continued)*

Deposits were up 8 percent from a year ago, also a smaller increase than in recent surveys. Deposits were up 5 percent or less at one-fourth of the banks, while they rose 12 percent or more at another one-fourth of the banks.

On average, 1.2 percent of all loans at Twin Cities banks were classified as nonperforming, unchanged from last spring. One-fourth of the banks said that none of their loans were nonperforming.

One-third of the Twin Cities bankers anticipated stronger loan growth during the next 12 months. Another 60 percent forecast little change in loan growth compared with the past year. Loan-to-deposit ratios were expected to remain relatively stable.

Northern Minnesota/ Wisconsin banks

Credit Weakness Persists. Loan volume is up an average of 2 percent from a year ago, a continued slackening from recent surveys. One-fourth of the banks reported declines in loan volume, while another one-fourth reported increases of 7 percent or more. Bankers predict little change in loan demand during the next 12 months.

Bank deposits were up an average of 7 percent from a year ago, slightly higher than last spring's figure. The upper quartile experienced increases of 10 percent or more, while the lower quartile reported increases of 1 percent or less.

Loan-to-deposit ratios averaged 62.4 percent, unchanged from last April. Half of the bankers viewed their ratio as lower than desired. Twenty-five percent of the banks had a ratio of 70 percent or more, while another 25 percent had a ratio of 56 percent or less.

On average, 2.7 percent of all loans at these banks were nonperforming. This figure was 0.5 percent or less at one-fourth of the banks. Another one-fourth said that at least 3 percent of their loans were nonperforming. Agricultural loans are a relatively small portion of total loan volume at banks in this part of the region, but they accounted for at least 10 percent of all loans at one-fourth of these banks. The typical interest rate charged for operating loans averaged 13 percent in October, down 0.8 points from April.

by Dr. Larry J. Wipf
Director of Regional Economics
Norwest Corporation

Bankers' Views: *1986 Economic Prospects*

Iowa - *"As much, or more stress is being felt by mainstreet and agribusiness concerns as by the farmers."*

"If we can keep a program similar to where we are today, 80 percent of the farmers can survive."

"Surprising amount of interest in purchasing acquired property."

"More land will be put on market than we can handle. Downward pressure may accelerate."

"Good economic base outside ag will give our area some stability."

Minnesota - *"... lower income for the land owners will slow their spending habits, which will put more adverse pressure on local businesses."*

"Good operators are holding their own; the ones with too much debt can't get out fast enough."

"Unless we get a lot better prices for grain, we are going to lose another 10 to 20 percent of our farmers that are farming large numbers of acres."

"Our big problem is on mainstreet."

"We probably will lose 5 out of 25 businesses in the next 12 months."

Montana - *"Terrible and no prospect for improving."*

"Low commodity prices coupled with two years of drought have left the rural community in financial stress."

"Expect continued deterioration, although at a slower rate as adjustments are made."

Nebraska - *"Extremely high corn and edible bean yields will make this year breakeven, even though market prices are very low."*

"Expect nearly a 15 percent foreclosure rate in our trade area."

"While I expect to see some involvement from outside investors, lack of profitability will deter many from moving funds into land."

"The farm sector will continue to deteriorate as asset values and income decline. Impact will be especially hard on local farm communities."

North Dakota - *"Present cost-return ratio will lead to lower land values yet, which will eventually create a major disaster in rural America!"*

"1986 probably will be worse especially for real estate. Land prices will fall, although not nearly as fast."

"Present (farm) program has allowed strong credits to make money, while weaker credits continue to deteriorate."

"Business failure has been greater than farm failure, at this point."

South Dakota - *"1986 will have more farm bankruptcies and closed ag banks. This is a disaster."*

"(Expect) a great deal of adjustment to what farming can actually earn."

"Agriculture is weak...Other businesses (manufacturing) in the area are expanding and pushing the area's economy forward."

Wisconsin - *"Overall economic conditions will remain fair to good due to a strong industrial element in this area."*

"The dairy industry has only suffered this past 10 to 12 months."

"Expecting further deterioration in repayment ability and collateral values as milk price drops."

"Outlook is bleak, land values decreasing. No improvement foreseen within next 2 to 3 years."

Twin Cities - *"Continued strong outlook."*

"Very good. Expect reasonably good commercial and retail growth."

"Economic outlook will be about the same as '85."

"Steady to down slightly."

Northern Minnesota/Wisconsin - *"Our town established an enterprise zone which has attracted new businesses."*

"The Iron Range economy will remain static."

"Expect no increase in employment and a continued population loss creating even further downward pressure."

"Area is recreation and tourist oriented. Retailers report increases in all areas. Anticipate continued improvement in local retail and service volume."

Indicators is a bimonthly publication of the Economics Department of Norwest Corporation, 1200 Peavey Bldg., Minneapolis, MN 55479. For further information contact Dr. Sung Won Sohn, Chief Economist, (612) 372-7871; Dr. Larry J. Wipf, Director of Regional Economics, (612) 372-9281; or Janet Grant, Manager of Affiliate Communications, Corporate Communications, (612) 372-6704.

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST MAY 15, 1986

Spring 1986 Regional Economic Survey

Our 20th semiannual survey of the region's bankers suggests that, although the farm economy is expected to remain weak, we may be approaching the bottom of the agricultural cycle. The agricultural bankers' confidence index rose for the first time since October 1983, when the PIK program boosted crop prices. Among other topics, this survey provides up-to-date information on land prices, the number of farm liquidations, the magnitude of credit problems, current business conditions and bankers' views on the economic prospects for the balance of the year.

The survey also indicates that Twin Cities bankers anticipate a continuation of relatively healthy economic conditions. So far, most major cities in the region have not been noticeably affected by depressed farm conditions. Meanwhile, bankers in northeastern Minnesota and northwestern Wisconsin anticipate slowly improving economic conditions. Conducted in April, this survey drew responses from 800 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural conditions

Approaching the bottom. Forty percent of the agricultural bankers rated current economic conditions fair and 7 percent good, slightly more favorable responses than last fall. Another 40 percent classified local conditions poor and 13 percent very poor.

Wisconsin and eastern North Dakota bankers were the most positive. In Wisconsin, where strong dairy producers are still turning a profit, half the bankers rated current conditions as fair and another 25 percent good. However, they expressed concern over the future. Eastern North Dakota bankers were almost as positive; the Red River Valley area is aided by profitable sugar prices and the presence of other specialty crops. Economic conditions appeared weakest in Montana; however, bankers report that improved moisture conditions have brightened the outlook for 1986 crops.

Bankers disagree about whether the farm sector has hit bottom yet. One-third of the bankers expect further deterioration in overall economic conditions during the next six to twelve months. However, 60 percent of the bankers anticipate little change from current conditions; another 7 percent anticipate improvement. This is a more positive appraisal than last fall, resulting in the first upturn in the agricultural bankers' confidence index since October 1983 (see page 6). A number of bankers state that they feel the agricultural sector is close to the bottom of the cycle.

Bankers indicate that fewer farm borrowers will have negative cash flow in 1986. They point to the positive impact on farm earnings of lower costs for fuel, fertilizer, chemicals, cash rent and interest. Bankers also indicate that farmers who carry little or no debt are making a comfortable living.

Land prices declining at slower rate. According to the region's bankers, cropland prices are down about 19 percent from a year ago, a somewhat slower rate of decline than reported last fall. One-fourth of the bankers reported declines of 25 percent or more while another one-fourth said land prices were down 10 percent or less. Iowa and Nebraska in particular posted smaller declines than reported last fall.

At present, cropland prices are estimated to average about $1,000 an acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $800 per acre or less; another one-fourth reported sales of $1,100 per acre or more. In grain-producing areas of Minnesota and Nebraska, good cropland was pegged at $700 per acre, with the lower quartile reporting land values in the $500 range and the upper quartile in the $800 plus range.

Pastureland prices are off 21 percent from a year ago. Key dairy and ranching areas reported somewhat larger declines than a year ago. Much of the pastureland in North Dakota and South Dakota fell in the $100 to $200 per acre range. In Montana, pastureland was typically selling for $75 to $150 per acre. Wisconsin pastureland averaged $245 an acre.

Half of the bankers looked for fairly stable land prices during the next 12 months, while the other half felt land prices would decline further. Bankers indicated that investors and financially sound farmers are showing more interest in buying farmland.

Adjustment process continuing. On average, bankers estimated that 3.8 percent of their customers quit farming during the last 12 months; the median response was 3 percent. These figures are probably smaller than most people typically assume from the publicity agriculture has received. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural banks to a high of at least 5 percent for another one-fourth of the banks.

Bankers predict that 5 percent of their customers may discontinue operations during the next year — little change from previous surveys. Bankers indicate

(continued on page 5)

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Conducted by:
Norwest Corporation, Economics Department
Norwest Banks, Financial Institutions Group

Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	53.2%	43.9%	52.9%	63.0%
Minnesota	58.0	50.0	58.9	67.0
North Dakota	51.9	42.0	51.0	61.5
South Dakota	49.9	40.0	49.5	59.8
Montana	62.5	48.0	66.0	74.0
Wisconsin	57.4	51.0	58.0	64.0
Iowa	47.2	38.0	47.0	55.9
Nebraska	55.9	45.1	54.5	65.0
Twin Cities Banks	62.9	57.0	62.0	70.5
N. Minn.-Wisc.	62.0	56.0	64.0	69.0

2. **Loan-to-deposit ratio** higher or lower than desired?

	Higher	Desired	Lower
All Ag Banks	9%	39%	52%
Minnesota	10	48	41
North Dakota	2	36	63
South Dakota	15	44	41
Montana	38	19	42
Wisconsin	9	28	63
Iowa	6	35	59
Nebraska	5	43	52
Twin Cities Banks	5	28	68
N. Minn.-Wisc.	6	53	40

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	12.7%	12.5%	12.8%	13.0%
Minnesota	12.8	12.5	13.0	13.0
North Dakota	12.7	12.5	12.8	13.0
South Dakota	12.9	12.5	13.0	13.1
Montana	12.9	12.4	13.0	13.5
Wisconsin	12.4	12.0	12.4	12.8
Iowa	12.7	12.3	12.8	13.0
Nebraska	12.7	12.5	12.8	13.0
Twin Cities Banks	11.6	11.0	11.5	12.0
N. Minn.-Wisc.	12.4	12.0	12.5	13.0

4. Percentage change in **loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	−5.4%	−10.0%	−5.0%	0.0%
Minnesota	−5.1	−10.0	−4.0	0.0
North Dakota	−3.6	−10.0	−2.0	0.0
South Dakota	−4.3	−10.0	−1.5	0.0
Montana	−7.8	−13.5	−7.0	0.0
Wisconsin	0.4	− 5.0	0.0	5.0
Iowa	−7.1	−14.0	−5.0	0.0
Nebraska	−7.0	−10.0	−5.5	0.0
Twin Cities Banks	7.4	− 2.0	6.0	11.0
N. Minn.-Wisc.	2.7	− 4.0	0.0	6.5

5. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	20%	51%	29%
Minnesota	27	44	29
North Dakota	22	55	23
South Dakota	15	57	28
Montana	8	50	42
Wisconsin	15	62	23
Iowa	18	50	32
Nebraska	19	53	28
Twin Cities Banks	39	41	20
N. Minn.-Wisc.	32	33	30

6. Anticipated trend in **loan-to-deposit ratio** during **next 12 months?**

	Higher	Same	Lower
All Ag Banks	29%	43%	28%
Minnesota	37	35	27
North Dakota	28	42	31
South Dakota	28	56	16
Montana	23	31	46
Wisconsin	22	51	27
Iowa	25	44	31
Nebraska	24	53	22
Twin Cities Banks	54	34	12
N. Minn.-Wisc.	30	45	26

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.4%	0.0%	4.0%	8.0%
Minnesota	4.3	0.0	5.0	8.5
North Dakota	3.1	0.0	2.0	7.0
South Dakota	3.4	0.0	4.0	6.8
Montana	−1.1	−8.0	0.0	8.0
Wisconsin	6.1	0.0	7.0	9.3
Iowa	2.9	0.0	3.0	9.0
Nebraska	2.6	0.0	2.0	7.8
Twin Cities Banks	10.7	4.5	10.0	16.0
N. Minn.-Wisc.	6.8	1.8	6.0	10.0

8. **Percentage** of total loan portfolio that is **farm loans?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	45.1%	25.0%	41.5%	65.0%
Minnesota	40.5	24.0	35.0	60.0
North Dakota	45.7	25.0	40.1	65.0
South Dakota	63.4	49.0	70.0	80.0
Montana	32.4	15.0	30.0	42.3
Wisconsin	28.6	10.0	25.0	44.0
Iowa	45.8	28.8	44.5	65.0
Nebraska	59.6	42.0	65.0	78.0
Twin Cities Banks	2.0	0.0	0.0	0.1
N. Minn.-Wisc.	8.5	0.0	2.0	12.0

9a. Percentage of total **loan portfolio** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
Twin Cities Banks	2.0%	0.0%	1.1%	3.0%
N. Minn.-Wisc.	2.1	0.5	1.8	3.0

9b. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	6.6%	1.0%	5.0%	10.0%
Minnesota	7.4	1.0	5.0	10.0
North Dakota	5.4	1.0	3.0	7.0
South Dakota	4.6	0.5	2.0	6.0
Montana	9.7	0.5	5.0	10.5
Wisconsin	4.7	1.0	3.0	6.0
Iowa	6.9	1.0	5.0	10.0
Nebraska	6.0	2.0	5.0	8.0

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$715	$463	$750	$950
Minnesota	692	525	700	850
North Dakota	428	289	350	488
South Dakota	356	250	350	450
Montana	408	244	300	613
Wisconsin	613	488	600	750
Iowa	979	800	1000	1100
Nebraska	675	494	700	806

10b. Current **market value** of **pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$254	$150	$200	$300
Minnesota	265	150	225	300
North Dakota	137	100	125	150
South Dakota	158	100	150	200
Montana	125	75	100	150
Wisconsin	245	150	200	300
Iowa	343	250	300	400
Nebraska	200	100	180	275

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 19.0%	– 25.0%	– 20.0%	– 10.0%
Minnesota	– 21.7	– 30.0	– 20.0	– 15.0
North Dakota	– 15.7	– 20.0	– 15.0	– 10.0
South Dakota	– 15.9	– 25.0	– 15.0	– 10.0
Montana	– 19.3	– 23.8	– 17.5	– 10.8
Wisconsin	– 16.1	– 25.0	– 15.0	– 8.0
Iowa	– 19.9	– 25.0	– 20.0	– 15.0
Nebraska	– 15.4	– 20.5	– 15.0	– 10.0

11b. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 20.7%	– 30.0%	– 20.0%	– 10.0%
Minnesota	– 20.6	– 30.0	– 20.0	– 10.0
North Dakota	– 18.6	– 25.0	– 16.3	– 10.0
South Dakota	– 21.0	– 27.5	– 20.0	– 15.0
Montana	– 20.7	– 25.0	– 20.0	– 10.5
Wisconsin	– 16.0	– 25.0	– 15.0	– 5.0
Iowa	– 23.0	– 30.0	– 20.0	– 15.0
Nebraska	– 19.3	– 25.0	– 20.0	– 10.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	2%	49%	49%
Minnesota	2	49	48
North Dakota	0	43	57
South Dakota	0	41	59
Montana	4	31	65
Wisconsin	2	57	41
Iowa	1	52	47
Nebraska	5	55	40

13. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities	22%	66%	12%
N. Minn.-Wisc.	13	53	34

14. Change expected in **capital outlays** during next **six months?**

	Stronger	Same	Weaker
Twin Cities	32%	59%	10%
N. Minn.-Wisc.	23	51	26

15. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities	18%	78%	5%
N. Minn.-Wisc.	21	36	43

16. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities	18%	54%	28%
N. Minn.-Wisc.	38	36	26

17. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities	37%	54%	10%
N. Minn.-Wisc.	45	34	21

18. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities	85%	15%	0%
N. Minn.-Wisc.	55	28	17

19. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	7%	39%	40%	13%
Minnesota	0	9	34	38	20
North Dakota	0	5	40	51	5
South Dakota	0	10	34	43	13
Montana	0	8	15	58	19
Wisconsin	0	25	51	18	5
Iowa	0	3	43	43	11
Nebraska	0	0	45	41	14
Twin Cities Banks	7	73	20	0	0
N. Minn.-Wisc.	0	11	57	30	2

20. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	7%	60%	32%
Minnesota	10	53	37
North Dakota	3	75	22
South Dakota	7	59	34
Montana	19	54	27
Wisconsin	11	58	31
Iowa	5	64	32
Nebraska	7	62	31
Twin Cities Banks	34	63	2
N. Minn.-Wisc.	49	45	6

21. Percentage of farm borrowers having **negative cash flow** in 1986?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	20.7%	5.0%	15.0%	30.0%
Minnesota	24.4	10.0	20.0	30.0
North Dakota	21.6	5.0	15.0	33.0
South Dakota	20.8	5.0	15.0	30.0
Montana	29.6	12.5	20.0	47.5
Wisconsin	18.9	5.0	15.0	25.0
Iowa	17.4	5.0	10.0	25.0
Nebraska	17.8	5.0	10.0	25.0

22. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.8%	1.0%	3.0%	5.0%
Minnesota	4.1	1.0	3.0	5.0
North Dakota	2.5	1.0	2.0	4.0
South Dakota	3.1	0.0	2.0	4.8
Montana	3.0	0.0	2.0	5.0
Wisconsin	2.8	0.0	2.0	5.0
Iowa	4.1	1.0	3.0	5.0
Nebraska	4.5	2.0	4.0	5.0

23. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.3%	2.0%	5.0%	6.0%
Minnesota	6.0	2.0	5.0	10.0
North Dakota	4.9	2.0	3.0	6.0
South Dakota	4.8	2.0	4.0	5.0
Montana	6.0	2.8	5.0	10.0
Wisconsin	4.6	2.0	5.0	5.0
Iowa	4.9	2.0	5.0	5.0
Nebraska	5.5	2.5	5.0	6.0

24. Percentage of farm customers **not given operating loans** this spring?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.4%	1.0%	3.0%	7.0%
Minnesota	7.8	1.0	5.0	10.0
North Dakota	4.0	1.0	3.0	5.0
South Dakota	4.4	1.0	3.0	5.3
Montana	5.0	1.8	5.0	10.0
Wisconsin	5.1	0.0	2.0	5.8
Iowa	4.3	1.0	3.0	5.0
Nebraska	4.1	1.5	3.0	5.0

25. For those **credit lines not renewed** this spring, what percentage will:

	Obtain Financing Elsewhere?	Retire This Spring?	Quit Farming?
All Ag Banks	45%	10%	45%
Minnesota	39	11	50
North Dakota	51	7	42
South Dakota	55	12	33
Montana	51	6	43
Wisconsin	51	12	38
Iowa	44	10	47
Nebraska	42	13	47

26a. Percentage of farm borrowers being given **normal supervision?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	64.0%	50.0%	70.0%	80.0%
Minnesota	63.5	50.0	70.0	80.0
North Dakota	62.6	50.0	63.0	75.0
South Dakota	66.4	50.0	70.0	85.0
Montana	59.6	50.0	60.0	76.5
Wisconsin	71.9	60.0	80.0	90.0
Iowa	63.4	50.0	70.0	80.0
Nebraska	63.2	50.0	65.5	79.5

26b. Percentage of farm borrowers identified as a **weak credit** and receiving **special attention?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	22.4%	14.0%	20.0%	30.0%
Minnesota	22.4	15.0	20.0	30.0
North Dakota	22.7	15.0	25.0	30.0
South Dakota	20.0	10.0	20.0	30.0
Montana	23.3	15.0	20.0	30.0
Wisconsin	15.8	8.0	13.5	21.3
Iowa	23.7	15.0	20.0	30.0
Nebraska	23.5	14.3	20.0	30.0

26c. Percentage of farm borrowers identified as a **very weak credit** with **potential for loss?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	9.7%	4.0%	9.0%	15.0%
Minnesota	10.2	5.0	10.0	15.0
North Dakota	10.7	4.0	10.0	14.0
South Dakota	8.8	2.0	6.5	11.3
Montana	12.6	5.0	10.0	17.5
Wisconsin	7.2	2.0	5.0	11.5
Iowa	9.3	4.0	8.0	10.0
Nebraska	10.0	3.0	10.0	15.0

26d. Percentage of farm borrowers for which **foreclosure or bankruptcy** is in progress or imminent?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.9%	0.1%	2.0%	5.0%
Minnesota	5.0	1.0	3.0	5.0
North Dakota	4.0	1.0	2.0	5.0
South Dakota	3.0	0.0	2.0	5.0
Montana	4.6	0.0	5.0	8.5
Wisconsin	3.2	0.5	2.0	5.0
Iowa	3.3	0.0	2.0	5.0
Nebraska	3.7	1.0	2.3	5.0

Iowa - *"Economy remains good as we have excellent local industry to support economic base."*

"Continued weak year in agriculture with about two years needed to restructure debt."

"Showing signs of leveling off."

"No improvement in sight for several years."

Minnesota - *"Economy is not expected to show any improvement, but feel we are close to the bottom."*

"Expect continued deterioration."

"With new state legislation, ag credit will dry up."

"Feel bottom has been reached, but will take at least two years to liquidate the nonsurvivors."

Montana - *"Good moisture conditions have improved outlook considerably."*

"No significant signs of improvement in sight."

"Agriculture and natural resource industries depressed."

Nebraska - *"Land sales are picking up this spring."*

"Feel our local economy has stabilized since January 1st."

"It is tough, but feel we have hit the bottom."

North Dakota - *"Sugar beets have always been a positive factor for our economy."*

"Not much change expected."

"Feel there are many positive factors beginning to surface."

"(Farm) units in excellent financial position will continue to prosper."

South Dakota - *"Feel bottom has been achieved."*

"Lower fuel, interest rates will lower break-even prices."

"Do not look for any major changes in the economic outlook for this area."

"Current land prices are attractive to well-established farmers."

Wisconsin - *"Outlook good due to diversification of industries."*

"Overall ag economy getting worse."

"Good dairy farmers still doing well."

Twin Cities - *"Very Good Outlook."*

"Expect moderate growth."

"Slowness in computer area. Service sector will be relatively strong..."

Northern Minnesota/Wisconsin - *"Outlook is good expecially in terms of new construction (highways/paper plant)."*

"After severe slump, economy has bottomed out and will improve over next 12 months.

"Expect slight improvement."

1986 Survey *continued from page 1*

that it may take a couple of years before the turnover of highly leveraged farm operations is completed.

Bankers report that about 70 percent of their farm borrowers are being given normal supervision and continue to do well. The number of relatively strong accounts ranged as high as 80 percent or more at one-fourth of the banks to about 50 percent or less at another one-fourth of the banks.

Bankers estimated that only 5 percent of their farm customers would not be refinanced this spring; the median response was 3 percent. These figures are considerably lower than one is led to believe from more casual observations. Moreover, nearly half of these customers were expected to receive financing from other sources such as the Farmers Home Administration, relatives, etc., while another 10 percent were expected to retire. In cases where financing cannot be obtained elsewhere, the land is likely to be farmed by another operator.

Twin Cities economy

Relatively healthly. Most Twin Cities bankers rated local economic conditions good to very good, slightly higher marks than last fall. Housing starts are stronger than a year ago. Retail sales are roughly on par with last year's favorable level; however, auto sales are lagging. Capital expenditures show modest improvement.

As of March 1985, Twin Cities nonfarm wage and salary employment was 10 percent above the peak reached before the 1981-82 recession. This was about 1 percentage point better than the national average. Currently, however, Twin Cities employment is growing more slowly than nationally. The surge in business services and printing and publishing jobs has ceased, at least temporarily. A slump in the computer industry plus declines in other durable goods has pushed Twin Cities manufacturing employment 3.5 percent below a year ago. However, job growth remains strong in construction, transportation, retail trade, finance, insurance and real estate.

Bankers are optimistic about the prospects for the balance of the year. About 65 percent of the bankers expect overall conditions so remain near current levels, while the remainder anticipate a stronger economy. They forecast a pick-up in both consumer and business spending.

Northern Minnesota/ Wisconsin economy

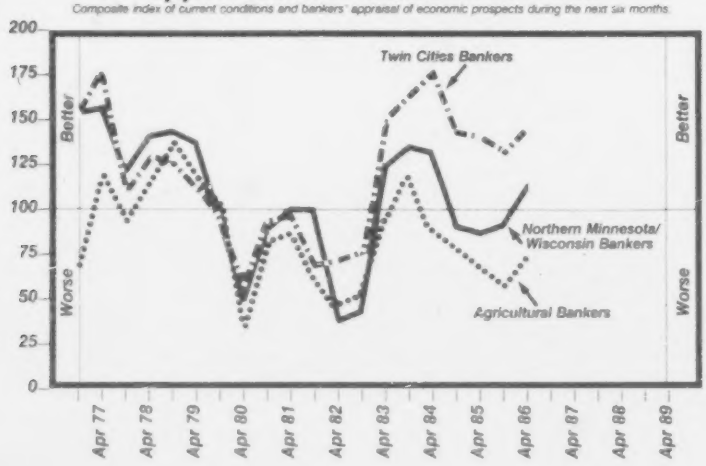
Improvement expected. One-third of the bankers characterize economic conditions as poor, 57 percent fair and 11 percent good. General retail sales and capital spending remain weak, but some improvement was observed in auto sales and housing starts.

Bankers feel the local economy has bottomed out. With consumer expenditures leading the way, half of the bankers look forward to improving economic conditions throughout 1986; only 6 percent anticipate declines—the most optimistic appraisal in recent years. Lower gasoline prices are expected to spur tourism. Although capital outlays are likely to remain weak, new paper plants, etc., are expected to boost construction activity. However, the mining, logging and shipping industries are expected to remain weak.

(continued on page 6)

Upper Midwest Confidence Index

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



1986 Survey

Credit conditions

Agricultural banks

Loan volume declines. The long-term adjustment to lower levels of farm debt is under way. Total farm debt peaked in 1983, after rising every year since 1945. The decline in agricultural loans first showed up at other major private lenders; banks did not join this trend until 1985. At present, total loans outstanding at agricultural banks in the region are down 5.4 percent from a year ago. One-fourth of the banks reported declines of 10 percent or more; another one-fourth reported no drop in loan volume. Loan demand was strongest in Wisconsin, with one-fourth of the banks reporting increase of 5 percent or more.

Deposits at agricultural banks were up a modest 3.4 percent from a year ago, on par with the last couple of surveys. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more.

The combination of rising deposits and declining loan volume pushed the average loan-to-deposit ratio 6 percentage points below last year's level to 53.2 percent — the lowest level since the 1960s. One-fourth of the banks had a ratio of 44 percent or less, while another one-fourth had a ratio of 63 percent or more. Half of the bankers surveyed viewed their loan-to-deposit ratio as lower than desired.

Interest rates on farm loans at agricultural banks continued to decline, aiding the farm adjustment process. The typical interest rate charged for farm operating loans averaged 12.7 percent in early April, down from 13.9 percent a year ago.

Agricultural loans made up an average of 45 percent of all loans in the portfolios of the banks that responded to this survey. On average, 6.6 percent of these agricultural loans were nonperforming — either requiring interest concessions or not accruing any interest. One-fourth of the banks said that at least 10 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming.

Twin Cities banks

Deposits outstrip loan growth. Bank deposits are up nearly 11 percent from a year ago at Twin Cities banks. One-fourth of the banks reported increases of 16 percent or more, while another one-fourth of the banks reported increases of 4.5 percent or less.

Although loan demand was stronger than last fall, loans did not keep pace with deposit growth. Total loans outstanding are up 7.4 percent from a year ago. One-fourth of the Twin Cities bankers reported increases of at least 11 percent, while another one-fourth reported declines of at least 2 percent.

At 62.9 percent, the average loan-to-deposit ratio was down 2.6 percentage points from last fall to the lowest level since April 1983, which also was a period of weak loan demand. One-fourth of the banks had a loan-to-deposit ratio of 57 percent or less, while another one-fourth had a ratio of 70.5 percent or more. Two-thirds of the bankers viewed their ratio as lower than desired. Bankers forecast stronger loan demand during the next 12 months, leading to higher loan-to-deposit ratios.

The typical interest rate charged for operating loans was 11.5 percent in early April, down from 13.3 percent a year ago. On average, 2 percent of all loans at Twin Cities banks were classified as nonperforming; the median response was 1.1 percent. One-fourth of the banks said that none of their loans were nonperforming while at least 3 percent of the loans were nonperforming at another one-fourth of the banks.

Northern Minnesota/ Wisconsin banks

Loan demand weak. Loan volume was up an average of 2.7 percent from a year ago; the median response showed no loan volume growth. One-fourth of the banks reported at least a 4 percent drop in loans, while another one-fourth reported increases of at least 6.5 percent. Deposits were up an average of nearly 7 percent from a year ago.

Loan-to-deposit ratios averaged 62 percent, down modestly from a year ago. Twenty-five percent of the banks has a ratio of 69 percent or more, while another 25 percent had a ratio of 56 percent or less. Forty percent of the bankers viewed their ratio as lower than desired, but they anticipate stronger loan demand during the next 12 months.

On average, 2.1 percent of all loans at these banks were nonperforming. This figure was 0.5 percent or less at one-fourth of the banks. Another one-fourth said at least 3 percent of their loans were nonperforming. The typical interest rate charged for operating loans was 12.5 percent in April, compared with 13.8 percent a year ago.

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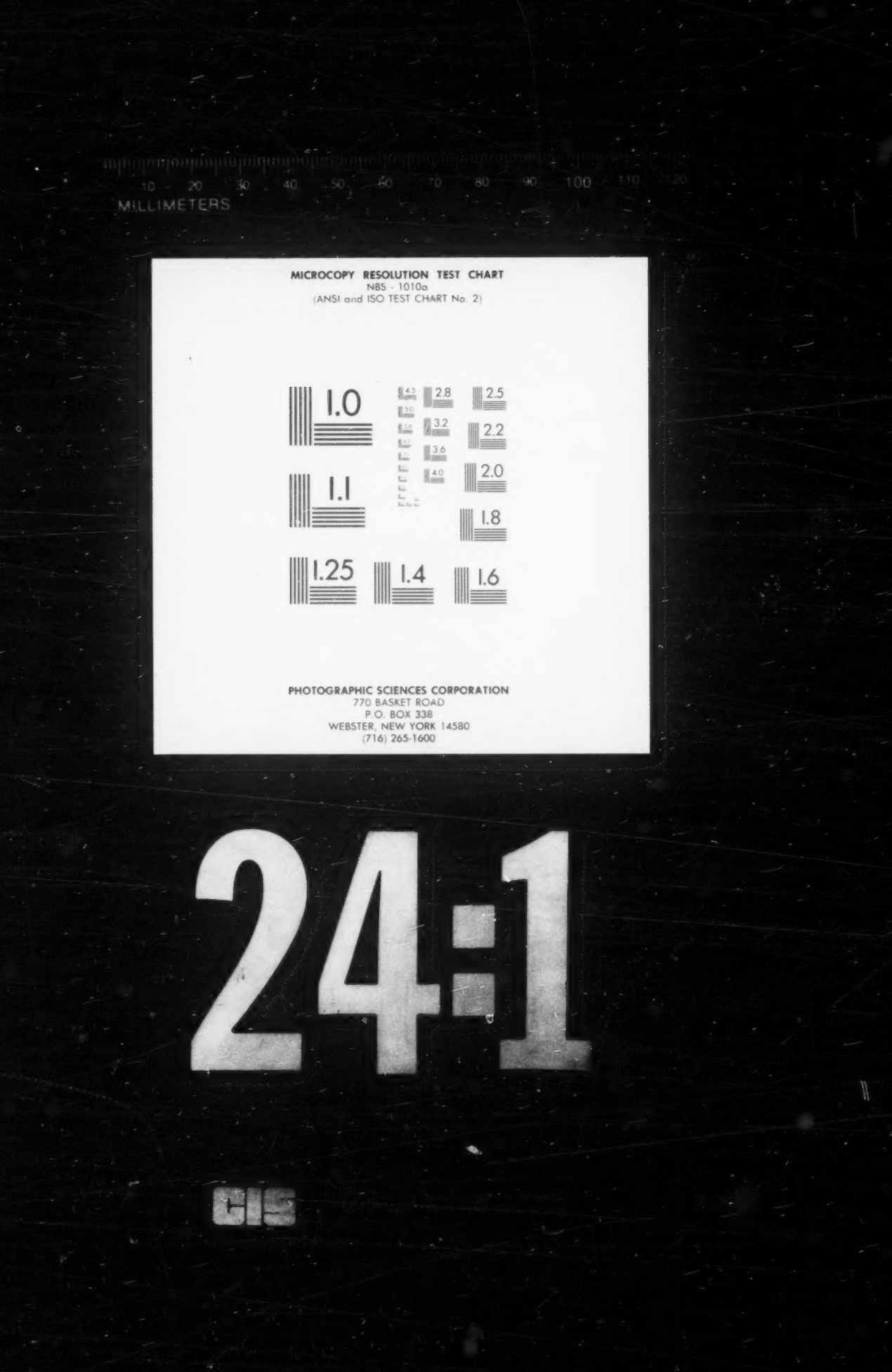
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MICROCOPY RESOLUTION TEST CHART
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